



Australian Government
Productivity Commission

Remote Area Tax Concessions and Payments

Productivity Commission Draft Report

August 2019

This is a draft report prepared for further public consultation and input. The Commission will finalise its report after these processes have taken place.



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An appropriate reference for this publication is:

Productivity Commission 2019, *Remote Area Tax Concessions and Payments*, Draft Report, Canberra.

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The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

Opportunity for further comment

You are invited to examine this draft and comment on it by written submission to the Productivity Commission, preferably in electronic format, by Friday 11 October 2019.

Further information on how to provide a submission is included on the study website: www.pc.gov.au/inquiries/current/remote-tax.

The Commission will prepare the final report after further submissions have been received and it will hold further discussions with stakeholders. The Commission will forward the final report to the Government in February 2020.

Commissioners

For the purposes of this study the Commissioners are:

Jonathan Coppel, Presiding

Paul Lindwall

Terms of reference

I, Josh Frydenberg, Treasurer, pursuant to Parts 2 and 4 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake a study into the the zone tax offset and related remote area tax concessions and payments.

Background

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

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

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

Scope

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

In conducting this review, the Productivity Commission is to:

- examine the operation of the zone tax offset and FBT remote area concessions, including the levels of assistance provided, indexation and the boundaries of eligible areas and prescribed zones;
- examine the economic and employment impacts of the zone tax offset, FBT remote area concessions, and Remote Area Allowance, including the effect of applying indexation, in regional Australia;

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

Process

The Productivity Commission is to undertake an appropriate public consultation process. This will include inviting public submissions in response to an issues paper and draft report. It will also involve consultation and meetings in regional communities.

The Productivity Commission is to commence this work in February 2019. A final report with recommendations should be provided to the Government within 12 months of commencement.

The Hon Josh Frydenberg MP
Treasurer

[Received 28 November 2018]

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Abbreviations

ABC	Australian Broadcasting Corporation
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ADF	Australian Defence Force
AHMAC	Australian Health Ministers' Advisory Council
AIHW	Australian Institute of Health and Welfare
AMEC	Association of Mining and Exploration Companies
ANZSIC	Australian and New Zealand Standard Industrial Classification
APS	Australian Public Service
ARIA	Accessibility/Remoteness Index of Australia
ATO	Australian Taxation Office
BCR	benefit-cost ratio
BITRE	Bureau of Infrastructure, Transport and Regional Economics
BOM	Bureau of Meteorology
CAANZ	Chartered Accountants Australia and New Zealand
CDP	Community Development Program
CGC	Commonwealth Grants Commission
CME	Chamber of Minerals and Energy
CPA	Certified Public Accountant
CPI	consumer price index
Cth	Commonwealth
DCA	Database Consultants Australia
DESSFB	Department of Employment, Skills, Small and Family Business
DHA	Defence Housing Australia
DHS	Department of Human Services
DIDO	drive-in drive-out
DIRD	Department of Infrastructure and Regional Development
DIRDC	Department of Infrastructure, Regional Development and Cities
DMIRS	Department of Mines, Industry Regulation and Safety
DSDMIP	Department of State Development, Manufacturing, Infrastructure and Planning
DSS	Department of Social Services

DTMR	Department of Transport and Main Roads
DVA	Department of Veterans' Affairs
FBT	fringe benefits tax
FBTAA	Fringe Benefits Tax Assessment Act
FIFO	fly-in fly-out
FTE	full-time equivalent
GP	General Practitioner
GPS	global positioning system
GST	goods and services tax
HELP	higher education loan program
HFE	horizontal fiscal equalisation
HIE	Hamilton Island Enterprises
HRSCRA	House of Representatives Standing Committee on Regional Australia
IBRD	International Bank for Reconstruction and Development
ICPAA	Isolated Children's Parents' Association of Australia Inc.
IRSD	Index of Relative Socio-economic Disadvantage
ITAA	Income Tax Assessment Act
LGA	local government area
LGANT	Local Government Association of the Northern Territory
LGAQ	Local Government Association of Queensland
MCA	Minerals Council of Australia
MMM	Modified Monash Model
NAIF	Northern Australia Infrastructure Facility
NALSPA	National Automotive Leasing and Salary Packaging Association
NBN	National Broadband Network
NFF	National Farmers' Federation
NIEIR	National Institute of Economic and Industry Research
NSW	New South Wales
NT	Northern Territory
OAG	Office of the Auditor General
OECD	Organisation for Economic Co-operation and Development
OFTO	Overseas Forces Tax Offset
OLG	Overlapping generations model
PATS	patient assisted travel scheme
PC	Productivity Commission
PM&C	Department of the Prime Minister and Cabinet
PwC	PricewaterhouseCoopers
QLD	Queensland
QRC	Queensland Resources Council

RAA	remote area allowance
RAI	Regional Australia Institute
RCCIWA	Regional Chambers of Commerce and Industry of Western Australia
RDA	Regional Development Australia
REX	Regional Express Airlines
RFDS	Royal Flying Doctor Service
RRATRC	Rural and Regional Affairs and Transport References Committee
SA	South Australia
SA1	Statistical Area Level 1
SA2	Statistical Area Level 2
SA3	Statistical Area Level 3
SCRGSP	Steering Committee for the Review of Government Service Provision
SEZ	special economic zone
TAS	Tasmania
USO	universal service obligation
VEA	Veterans Entitlement Act
VIC	Victoria
WA	Western Australia
WA DRD	Western Australia Department of Regional Development
WA PSC	Western Australia Public Sector Commission
WALGA	Western Australian Local Government Association
WIP	workforce incentive program
ZTO	zone tax offset

Glossary

ABS Remoteness Areas	Five categories of places — major cities, inner regional, outer regional, remote, and very remote — defined by ranges of scores on the Accessibility and Remoteness Index of Australia (ARIA+). The index uses road distance from ‘service centres’, towns with populations above certain thresholds, as a proxy for access to services. (All references to the specific ABS remoteness areas in the text of this document are in italics.)
Concessions, including exemptions and partial concessions	<p>Concessions, in this report, are government policies that reduce the amount of tax that must be paid. The zone tax offset and the FBT remote area concessions are both examples.</p> <p>FBT remote area concessions take one of two forms: exemptions, which remove the obligation to pay fringe benefits tax on something, and partial (usually, 50 per cent) concessions, which reduce the tax payable.</p>
Fringe benefit, or benefit (n.)	<p>The terms ‘fringe benefit’ and ‘benefit’ are used interchangeably to describe the subjects of the Fringe Benefits Tax Assessment Act 1986 (Cth).</p> <p>They typically refer to certain goods and services provided to employees, regardless of whether or not the goods and services benefit the employee in a private capacity.</p> <p>As these terms can be confusing and imply private benefit to the employee, the Commission has endeavoured to avoid them, instead preferring to name the goods and services provided.</p>
Income	Includes income from employment, investment, production of household services for own consumption, and government payments.
Remuneration	Payment made in exchange for labour services. Wages and salaries are forms of remuneration. Goods and services provided to employees may serve as ‘remuneration in kind’.

Reportable	Fringe benefits are either reportable or excluded. Reportable fringe benefits must be listed on an employee's payment summary if the total value of those benefits provided to them exceeds a certain amount.
Statistical Area Level 1 (SA1), Statistical Area Level 2 (SA2) and Statistical Area Level 3 (SA3)	<p>Three types of geographical area that form part of the ABS Australian Statistical Geography Standard.</p> <p>Most SA1s have populations of between 200 and 800 people, with an average population of approximately 400 people.</p> <p>SA2s generally have populations of between 3 000 and 25 000 people, with an average population of about 10 000 people. SA2s are built up from whole SA1s.</p> <p>SA3s generally have populations of between 30 000 and 130 000 people. SA3s are built up from whole SA2s.</p>
Tax deduction	Any expenditure or provision that can be subtracted from assessable income, hence reducing the amount of income that is subject to income taxation.
Tax neutrality	Tax neutrality between FBT and income tax would exist if the marginal rates of FBT and income tax were identical, because employers would not be incentivised to provide goods and services in lieu of wages.
Tax offset/rebate	An entitlement which reduces the amount of tax to be paid. It reduces tax paid but does not reduce assessable income.
Tax savings	The tax that someone is spared from paying as a result of a concession.
Wages and salaries	Income received for labour services. Wages are paid at hourly rates whereas salaries are paid over fixed pay periods.
Zones, Ordinary Zone A, Ordinary Zone B and special areas	<p>Zones, in this report, are the eligible areas for the purposes of the zone tax offset (and related measures) as described in Schedule 2 of the Income Tax Assessment Act 1936 (Cth).</p> <p>There are two broad zones — the more northerly Zone A and a southern Zone B — and 'special areas' which are particularly remote parts of Zones A and B.</p> <p>'Ordinary Zone A' and 'Ordinary Zone B' refer to the parts of those zones outside the special areas.</p>

OVERVIEW

Key points

- Remote area tax concessions and payments are outdated, inequitable and poorly designed. They should be rationalised and reconfigured to reflect contemporary Australia.
- Remote Australia has changed considerably since 1945. Many areas once considered isolated are no longer remote, and improvements in technology have helped reduce the hardships of life in remote Australia, although expectations have risen.
- Today, close to half a million Australians live in remote places. The tyranny of distance can make living and doing business challenging. Some things that most Australians take for granted are not readily on hand. Yet many of those in remote Australia hold a strong personal or cultural connection to a place and their community as well as the way of life it offers. Others are attracted by job opportunities.
- The zone tax offset (ZTO), the remote area allowance (RAA), and the fringe benefits tax (FBT) remote area concessions are broadly designed to mitigate some of the inherent challenges, and facilitate development in regional and remote Australia.
- The ZTO is an ineffective and blunt instrument. There is no evidence to suggest that the ZTO currently affects where people choose to live or work. Some areas are no longer isolated, but remain eligible. Were it to be retained, the ZTO would need to be overhauled.
 - Reforms to eligibility would still leave the ZTO without a compelling rationale. There is no general role for Government to compensate taxpayers for the disadvantages of life in particular areas. Higher wages in the zones across a wide skill spectrum suggests that the market compensates workers, at least to some extent, for the disadvantages of remote living. For those looking to settle in remote communities, issues of liveability and lifestyle also play an important part, with remote living largely a matter of choice. The ZTO should therefore be abolished.
- The RAA is a supplementary payment directed to people on income support in remote areas. It is a means of partially compensating for higher living costs. The majority of recipients are from areas with socio-economic disadvantage and face barriers to mobility. Being out of the labour market, RAA recipients do not benefit from the wage premiums that apply to ZTO recipients.
 - While the RAA has a legitimate role, it needs a refresh — with boundaries updated to contemporary measures of remoteness, payment rates reviewed and transparency enhanced.
- FBT concessions for remote areas have dual objectives: equitable tax treatment where employers have operational reasons to provide goods and services to employees, and regional development.
 - The most compelling argument for these concessions is the former. But current concessions are poorly targeted for this purpose. They are overly generous and complex, thereby creating other inequities.
 - FBT remote area concessions should be redesigned to be consistent with the fundamental principle of equitable tax treatment while reducing the cost burden on taxpayers.
 - Most significantly, concessions on employer-provided housing should change. The current exemption should be reverted to a 50 per cent concession (as it was prior to 2000), and provisions allowing employers to claim housing exemptions solely because it is ‘customary’ to do so should be removed.

Overview

As one of the least densely populated countries in the world, large swathes of the Australian continent are ‘remote’: sparsely populated and distant from major cities. Many parts of remote Australia offer their residents a unique lifestyle, or a different set of employment opportunities to other parts of Australia. Living and doing business in remote places, however, can be challenging and demand resilience.

Australian governments at all levels have a long history of supporting people and businesses in remote Australia. As communities have continued to transition over time in response to economic, social and technological changes, there has been continued pressure to help sustain their long-term viability and prosperity.

The nature and scope of these policy interventions have evolved — mirroring the evolution of remote Australia itself. Some places that were undeniably remote in 1945 (when tax concessions for ‘isolated areas’ were introduced) have since become more developed and connected to the rest of the country and the world. Further, technological and economic developments have cushioned many of the difficulties stemming from distance, isolation, and a harsh climate.

Against this backdrop, the Commission has been asked to review three longstanding tax concessions and payments for residents and businesses in remote and certain regional areas: the zone tax offset (ZTO), the remote area allowance (RAA), and the fringe benefits tax (FBT) remote area concessions. These constitute small and discrete measures that sit within an existing, and much larger, tax and transfer system.

The ZTO’s origin dates back to the end of World War II when the Australian Government introduced income tax deductions for residents of designated zones in recognition of the hardship that they faced. The remote tax deductions, although contested at the time, were increased significantly in their early years. Governments further expanded the arrangements over the following decades:

- in 1984, with the introduction of the RAA as a payment for welfare recipients, extending the benefits of the ZTO to non-taxpayers residing in remote Australia
- in 1986, with the introduction of FBT remote area concessions to lessen the impact of the then new FBT
- in 1997 (for primary producers) and 2000 (for other employers), with a change from a 50 per cent FBT concession to a full exemption for employer-provided housing in remote areas.

Apart from a 2015 amendment to the ZTO to exclude fly-in fly-out workers who reside outside the zones, there has been no substantive change to the arrangements for more than thirty years, at least for the ZTO and the RAA. This inertia has kindled concerns that these measures have failed to keep pace with change in remote Australia, and may now be outdated.

Only one dedicated review of the ZTO has been undertaken during its life — the 1981 Cox Review. The Productivity Commission’s study is the first public review of the RAA and the FBT remote area concessions.

The Commission’s approach

The Commission’s remit in this study is wide. The Australian Government asked the Commission to assess the effects and policy merits of the three remote area measures, whether they meet their objectives, and the relevance of these objectives in contemporary Australia. It also asked the Commission to make recommendations for their future operation, including the levels of assistance provided, indexation and the boundaries.

As required by the Productivity Commission Act 1998 (Cth), the Commission has taken a community-wide perspective, taking into account not only the economic and employment impacts of the measures at a local level but also their ramifications at a national level in terms of forgone tax revenue, increased government outlays, and displaced economic activity.

The Commission has taken the broad architecture of the tax, expenditure and welfare system as given in assessing the design and desirability of the three measures. And in determining whether the measures are warranted, the Commission has considered:

- whether there is a significant market or government distortion impairing economic efficiency (and hence aggregate welfare), or an explicit ‘social equity’ objective
- whether the benefits of an intervention outweigh its costs, and whether the measure in question is the best available means to address the policy issue.

Community input

As a first step, the Commission has sought to understand the demands of life in remote Australia. This involved an extensive program of visits to meet with local residents, business owners and community leaders. The Commission also invited submissions and received close to 100 from a wide cross-section of stakeholders.

Many study participants highlighted the issues they faced on a daily basis. Some keenly felt the absence of the things they believe most Australians take for granted — for example, having access to nearby schools, with expensive boarding schools in regional centres or capital cities the only option for many. Others held deep concerns over social and economic decline in their community, the loss of social fabric, and the future prospects of their towns.

In some cases, the challenges raised diverged sharply from one town to the next. Some towns questioned the value of a transient fly-in fly-out (FIFO) workforce for their communities, while ‘source’ regions saw FIFO as generating beneficial income and employment opportunities for their residents.

In other cases, the same issues resonated with people from opposite ends of the country. One prominent issue was the high cost of living in remote Australia. It was also clear that expectations about the accessibility and quality of services have increased significantly over the years, just as they have elsewhere in Australia.

The Commission also visited communities who were optimistic about their future, typically by virtue of having access to a large natural asset base (amenable to mining or tourism) and to a pool of workers with the necessary skills. The Commission came across many individuals with a strong sense of purpose and determination and who enjoy living where they do.

The broader policy context

The Commission has considered other government measures designed to provide support for regional and remote Australia, as well as measures that are broader in scope and intent, but interact with the tax concessions and payments, such as those responding to the needs of Indigenous communities. An understanding of these broader measures helps put into context the relative importance of the remote area tax concessions and payments for regional and remote Australia.

The Australian Government funds many initiatives to assist people, businesses and communities in regional and remote areas. These include additional payments to doctors to work in remote areas, subsidies for the supply of some utility services like telecommunications, assistance for industries prominent in regional and remote areas and specific funds, such as the Building Better Regions Fund, to name a few. This is in addition to Australia’s system of horizontal fiscal equalisation, which seeks to give each jurisdiction the same capacity to provide public services, and notably takes into account the higher per capita expenditure on service delivery in remote areas.

State and Territory governments, which have primary responsibility for regional development within their jurisdictions, also have measures in place to support regional and remote Australia. These include providing their own remote area (district) allowances to attract police, teachers and other professionals, supporting patients needing to travel long distances to access specialist medical services, and providing distance education.

In this context, the ZTO, the RAA and the FBT concessions are a very small subset of the measures that support individuals, businesses and communities in, and facilitate the development of, regional and remote Australia.

The empirical challenge

A challenge for this study has been the dearth of relevant and readily available data. Even where data can be assembled, gauging the effects of the measures is problematic. The value of the ZTO and RAA is small, making it difficult to disentangle their effects from other factors and to assess their local impacts. There is also only a limited body of work on the remote area tax concessions and payments to inform an assessment of their impacts and effectiveness.

In view of these challenges, the Commission has undertaken several empirical exercises, drawing largely on unpublished data sources. Many of the findings in this report therefore shed new light on the operation of the arrangements. In other areas, the report contains requests for further information to help close data and information gaps and to bolster our analysis for the final report.

Constitutional issues

Since the establishment of remote area tax deductions in 1945 based on geographic delineations of remoteness, there has been ongoing debate about whether the ZTO complies with the Constitution of Australia. Section 51(ii) of the Constitution confers on the Commonwealth the power to make laws with respect to ‘taxation; but so as not to discriminate between States or parts of States’. Section 99 further states that ‘The Commonwealth shall not, by any law or regulation of ... revenue, give preference to one State or any part thereof over another State or any part thereof’.

After seeking the advice of the Attorney-General’s Department on the constitutional validity of the ZTO, the Cox Review (1981, p. 5) noted that:

... there was doubt about the issue and that [the members of the Cox Review] could have no assurance that the provision was constitutionally sound, notwithstanding that the arrangements had been in existence since 1945.

The arrangements, however, have never been directly tested by the High Court. As did the Cox Review, the Commission has sought and received legal advice and has considered the associated constitutional risk when examining different reform options.

Life in remote Australia

Remote Australia encompasses outback stations, small country towns, outback and coastal Indigenous communities, mining towns, offshore islands — and the vast and barely populated spaces between. The diversity of people, cultures, natural environments and settlements makes it impossible to tell a single story of life in remote Australia.

The ABS distinguishes between ‘*remote*’ (and ‘*very remote*’) areas and the rest of Australia based on an index of road distance from service centres (towns of a particular size, assumed to provide a base level of services). By this measure, more than 85 per cent of Australia’s landmass is *remote* or *very remote*, but just 2 per cent of Australians reside in these areas.

When income tax concessions were introduced in the mid-1940s, life in remote Australia was often arduous with relatively little access to the amenities available in cities (figure 1, panel A). These difficulties were particularly acute when compounded by a high cost of living and a harsh climate.

Since then, economic, social and technological change has altered where and how Australians live. Over a long period, the Australian economy has grown from its agrarian (and rural) roots to become a service economy, with a greater share of both economic growth and employment now centred in our major cities. While primary industries in remote areas continue to generate significant economic output, they require fewer workers than in the past. People have continued to leave remote areas as the cost of being ‘left out’ from the economic growth of the major cities has increased over time — particularly for younger Australians in pursuit of higher education and employment opportunities.

These changes have altered the nature of life in remote Australia. Since the 1940s, population growth has centred on capital cities, regional centres and coastal areas. Some previously isolated areas, such as Cairns, Townsville and Darwin, have developed into large, connected economic centres in their own right and are no longer ‘remote’ (figure 1, panel B). At the same time, improved communication and (air and road) transport infrastructure, more affordable air-conditioning and other advances have helped lessen the hardships of life in many remote areas.

However, some remote areas have not benefited from economic development as much as others. And not all the difficulties of remote living have been overcome; as one former resident of remote Western Australia put it:

Long hours in cars to get anywhere; high airfares; fuel prices; food prices; costly housing; high insurance costs; liquor restrictions in some of the very remote regions; poor roads that bash their cars to pieces; high education costs of kids having to be sent away to schools; medical services where the Flying Doctor works day and night; lack of entertainment and access to major events such as concerts, grand finals and the like.

Things may have improved from the days of telegraph lines and the weekly mail truck but the difference between city, town and bush remains – and the cyclones, droughts and floods keep coming. (Malcolm Ainsworth, sub. 10, p. 1)

Extreme climates and long distances can make it hard to attain a comparable material standard of living to a city resident or to those living in regional towns. Access to key services such as education, healthcare and transport is a major concern for many Australians living in remote areas. The cost of living can be higher, particularly in very remote areas, although housing can be less expensive than in cities. Businesses also face higher costs: for example, in attracting and retaining skilled labour.

In spite of these challenges, many Australians choose to live in remote locations. Some hold a strong cultural or personal attachment to a particular place and the way of life it offers, while others receive higher remuneration to make living there more attractive. The Commission was also struck by the community spirit in many remote areas and by the ‘community champions’ striving to create a better place, sometimes against steep odds.

Some of those who settle in remote areas are attracted by economic opportunities, often including higher remuneration. Others are less mobile, which affects their ability to seize economic and educational opportunities. This contributes to diverging socioeconomic outcomes among those who are mobile and those who are not. Indigenous Australians, representing about a quarter of remote area residents, are far less likely to have moved in the previous five years than their non-Indigenous counterparts (figure 1, panel D). There are also marked divergences in both income and employment outcomes between Indigenous and non-Indigenous Australians, and this gap widens as remoteness increases (figure 1, panels E and F).

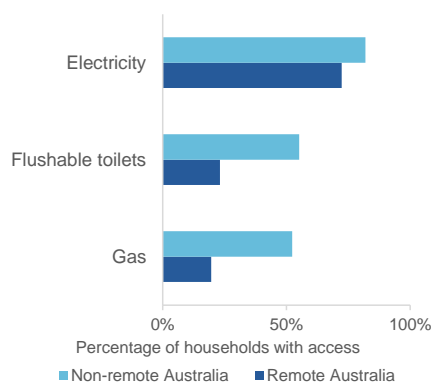
A closer look at the cost of living

Many facets of life are more expensive in remote areas, with several study participants giving specific examples. These examples are useful in their own right, although they do not provide a comprehensive basis for looking at the geographic differences in the cost of living. The Commission has had to draw on a wider range of sources — including state-based price surveys, ABS and Australian Competition and Consumer Commission data, and data from the consumer advocacy body, CHOICE — to help paint a picture on how the cost of living varies across Australia.

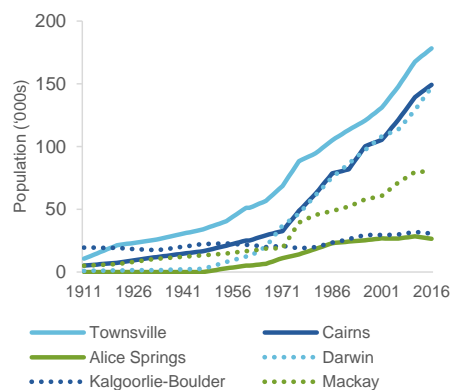
Regional price indexes for Queensland and Western Australia, which cover a large proportion of ZTO (75 per cent) and RAA (40 per cent) recipients, suggest that a typical household basket of goods costs more in special areas and Zone A communities than in the less remote Zone B (figure 3, panel A), where price levels are on average close to those in the relevant capital city (figure 2). That said, there is some variation within the zones. A similar pattern holds using the ABS remoteness areas (figure 2).

Figure 1 A snapshot of remote Australia and its evolution

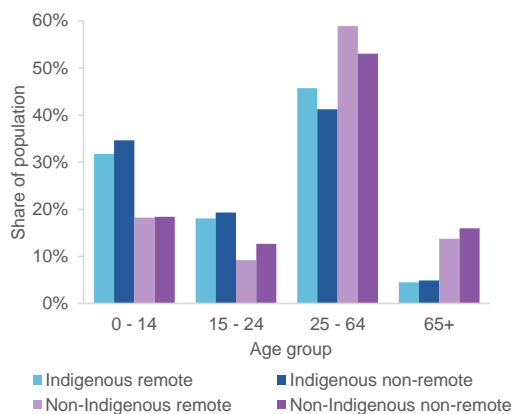
A. In 1947, remote residents had fewer comforts



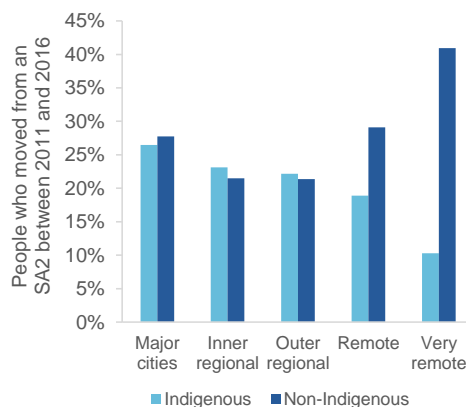
B. Some towns in the zones have expanded, while others have not



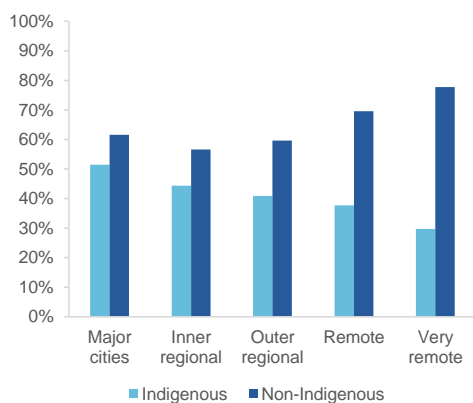
C. Much of the non-Indigenous population are in their prime working years ...



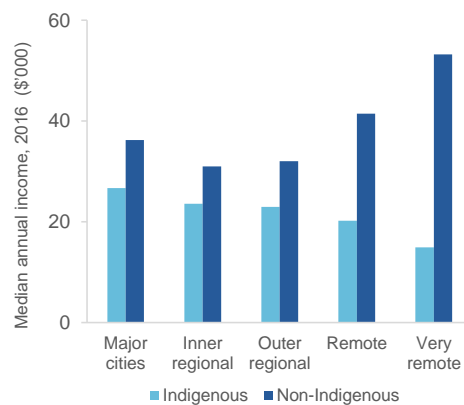
D. ... and they are generally more mobile than their Indigenous counterparts



E. There are divergent employment rates among the population...



F. ... as well as divergent income patterns



There is clear and consistent evidence that food and grocery prices increase with remoteness. For example, in 2016, the Northern Territory Market Basket Survey found that the average cost of a healthy food basket in remote stores was 29 per cent higher than in a Darwin supermarket. The presence of a major supermarket chain store has a substantial dampening impact on food and grocery prices. Data from CHOICE indicate that major supermarkets apply broadly uniform pricing across Australia.

More generally, prices of items that can be bought online are the same across Australia. However, freight costs can add significantly to the final cost of delivered goods, especially in very remote areas.

Residents of remote areas also face additional car maintenance and fuel costs when they have to drive long distances to access particular services. A resident of Useless Loop in Western Australia observed that:

Essentially to do almost anything, that the general public take for granted, necessitates a 350km trip by road, to the nearest towns of Carnarvon or Geraldton. Some 120km of that road journey is unsealed, and often impassable, roadway. (Katherine Trigg, sub. 17, p. 1)

For housing, the issues are more complex. Regional price index data indicate that housing costs can be significantly higher in the most remote communities (such as those in special areas and Zone A) than in their state's capital cities. However, the opposite is true in less-remote regional communities (such as those in Zone B). It seems that as the degree of remoteness increases, a lower cost of land is more than offset by the higher costs of construction. This is particularly the case in small communities lacking resident tradespeople and where materials need to be transported over long distances or across water (such as King Island and Lord Howe Island).

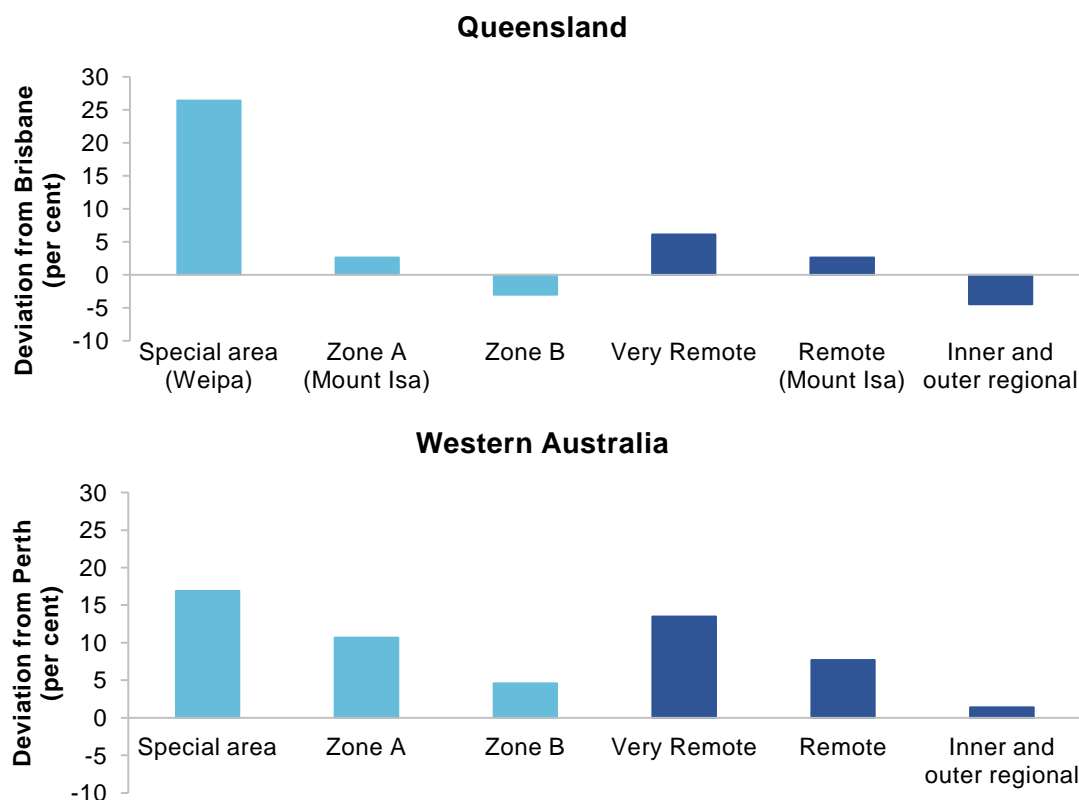
ABS census data, on the other hand, show that median weekly rents are significantly lower in *remote* and *very remote* Australia than elsewhere. While these data do not take into account differences in housing quality, lower rents in remote areas can be attributed partly to the high reliance on subsidised social housing in remote communities and partly to housing assistance provided to employees under the FBT remote area concessions.

Overall, the data suggest that some living cost pressures are inherent to remoteness. These are likely to be more pronounced in very remote areas. The Commission intends to undertake further analysis of living costs for the final report.

Figure 2

Price levels are higher in remote areas

Cost of overall basket of goods and services by zone and ABS Remoteness Areas, Queensland and WA regional price indexes^{a,b,c,d}



^a Queensland and Western Australia price index values are not directly comparable. They use different baskets of goods and services and apply different weightings; Queensland prices were surveyed in 2015 and Western Australia prices were surveyed in 2017; the indexes measure deviation of price levels from different cities (Brisbane and Perth, respectively). ^b Unweighted averages of observations are shown. In Queensland, there were three observations in the *very remote* category, two of which were also in Zone B and were of lower price levels than in Brisbane. ^c In Queensland, only one community was surveyed in each of the following categories: special area (Weipa), Zone A (Mount Isa) and *remote* (Mount Isa). ^d The light blue bars refer to the zones as defined for the purposes of the ZTO. The darker blue bars refer to remoteness categories as defined by the ABS.

The zone tax offset

The ZTO is a concession targeted at residents of specified parts of Australia (the zones). While more modest in value than when first introduced, today's ZTO still applies to taxpayers across more than three-quarters of Australia's landmass. It is a small part of the tax and transfer system, claimed by just 3 per cent of taxpayers (around 480 000 people).

The base payment rates differ by zone (table 1), with higher payments available to residents of areas considered to be more remote. The highest rates are available for residents of 'special areas', covering particularly remote parts of Zones A and B and some adjacent and

offshore islands (figure 3). Taxpayers can also claim a larger rebate if they maintain dependants (the dependant loading).

Table 1 Summary of the zone tax offset

	<i>Base rebate</i>	<i>Dependant loading</i>	<i>Claimants</i>	<i>Total claims^a</i>	<i>Average claim</i>
Ordinary Zone B	\$57	20%	291 000	\$39 million	\$133
Ordinary Zone A	\$338	50%	123 000	\$63 million	\$511
Special Areas	\$1 173	50%	29 000	\$33 million	\$1 146
Other ^b	na	na	38 000	\$19 million	\$496
Total	na	na	480 000	\$153 million	\$319

^a Refers to amount of ZTO claimed by taxpayers, which may exceed the amount actually received.

^b Includes claimants who recorded an out-of-zone address, overseas addresses, and postcodes not linked to a geographical area.

Although the broad strokes of the policy have been maintained, the Australian Government has amended the concession over time, often as part of broader reform of the Australian taxation system. The last increase to the ZTO rates took place in 1993-94.

Figure 3 provides a snapshot of the operation of the measure. Almost half of claimants live in the four largest cities in the zones (Townsville, Cairns, Darwin and Mackay), and almost 40 per cent of Northern Territory residents claim the offset. According to the ABS definition of remoteness, only a quarter of ZTO claimants resided in *remote* or *very remote* Australia. The average per-person claim was \$319 per year.

The offset is estimated to have reduced tax revenue by about \$153 million in 2016-17 — a relatively small concession compared with other tax offsets (including the Seniors and Pensioners Tax Offset and the Australian Super Income Stream Offset, jointly worth about \$1.4 billion annually).

The ZTO is an ineffective and blunt instrument

As currently configured, the ZTO does not deliver on its original objective, nor against any others that have been ascribed to it.

The measure has little effect

Since the last increase in the level of the ZTO payment in 1993-94, its value has declined markedly in real terms, and as a share of after-tax earnings. Today, for a taxpayer on an average income, the base Zone A rebate represents less than 1 per cent of after-tax income — compared with 3.7 per cent when first introduced. If the payment had been adjusted to keep pace with inflation, it would be more than double the current base rate of \$338. The

payment level for those living in one of the special areas created in 1982 is more substantial, but its real value has halved since the last adjustment to the payment rate in 1993-94 (figure 3, panel C).

The ZTO payment is now a modest sum for most recipients and is likely to have minimal economic impacts. A near-universal view in submissions was that the ZTO rates are inadequate. Some submissions also argued that the ZTO was too small to encourage people to move to the zones from elsewhere in Australia. The Commission likewise found no evidence to suggest that the current ZTO affects where people choose to live and work.

Some study participants suggested that a ZTO of more than \$10 000 would encourage people to move to remote areas. However, it was clear from our engagement with remote communities (and a review of the literature) that decisions to move to and settle in a remote environment are not only about dollars. Many people decide where to live based on liveability (including access to services) and lifestyle. These factors cannot be addressed by a tax concession alone.

The zones are outdated

Barring some minor inclusions (such as offshore islands), the outer border of the ZTO zones has been unchanged since 1945. Against a backdrop of significant transformation in remote Australia, some areas covered by the ZTO are clearly no longer ‘isolated’. In particular, many coastal areas have developed considerably since the 1940s. Cairns and Darwin each have international airports and populations of more than 130 000 people. These places, along with Townsville (population of almost 180 000) and Mackay (nearly 80 000), are regional cities in their own right, with easy access to key services and well-developed retail markets, and are well-connected to other capital cities.

More contemporary measures of remoteness, such as the ABS remoteness classification, define much of the north-east coast of Queensland (and Darwin itself) as being ‘*outer regional*’, and not *remote* or *very remote*.

Other anomalies in the current boundaries were brought to the Commission’s attention during its consultations and in submissions. For example, one participant observed that towns with vastly different circumstances are eligible for the same ZTO rebate, commenting that the Queensland part of Zone A includes:

... Camooweal, Cloncurry and Mount Isa – the infrastructure, business, travel and education opportunities along with cost of living in these three towns are vastly different but all receive the same Zone Tax Offset. Mount Isa is a regional town with a population close to 22,000, a regional airport with commercial flights, several schools (both primary and secondary) and numerous businesses. Cloncurry has a population of approximately 2719. Camooweal, 200kms away from Mount Isa, has a population of 208 and is a significantly smaller town, with limited services or infrastructure in or surrounding the town. Yet these towns all fall under the same zone for the ZTO. (ICPAA, sub. 74, pp. 2–3)

Similarly, some *very remote* areas (based on the ABS classification) receive a small rebate as part of Zone B (particularly, parts of western New South Wales and South Australia). For example, Wilcannia (in New South Wales), which is classified as *very remote* by the ABS, is eligible for the same payment rate as Townsville, which is classified as *outer regional* (figure 4).

Eligibility could be tightened

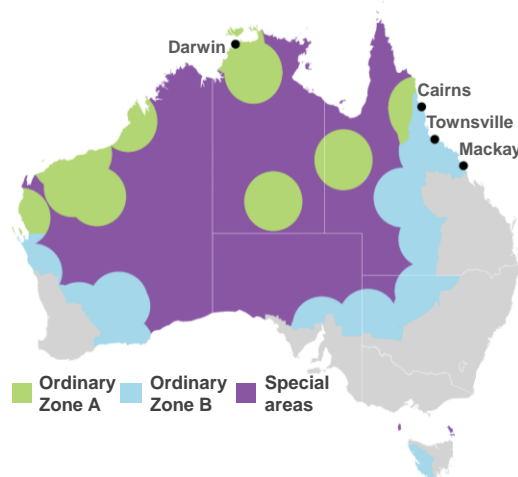
Were the ZTO to continue, the boundaries for eligibility should be redrawn. The Commission considers that the remoteness areas published by the ABS would be a more suitable basis for defining new zone boundaries (figure 4). The ABS mapping is widely used, including by State and Territory governments and the Commonwealth Grants Commission, and is updated after each census using a transparent and well-understood methodology.

One option for updating the ZTO boundaries is to reduce the number of zoned areas from three to two. Using the ABS categories of *remote* and *very remote* areas would remove about three-quarters of current claimants (nearly 360 000 people, including those in the four large regional cities) from eligibility. It would also expand eligibility to areas that are not currently within the boundaries (such as Port Lincoln, Kangaroo Island and St George). If payments for *remote* and *very remote* areas were aligned with current rates for ordinary Zone A and special areas, respectively, this measure would cost about \$160 million per year — slightly more than what it costs now.

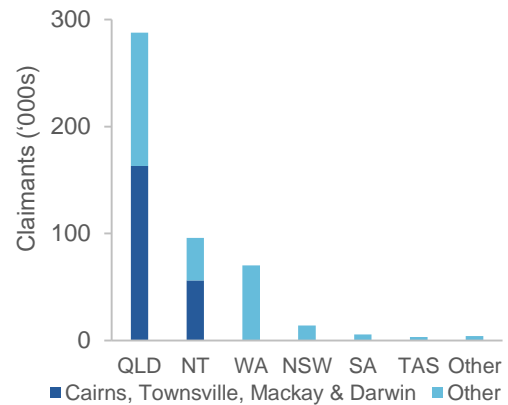
Another option is to limit the concession further to just *very remote* areas. This would target those areas where the cost of living appears most clearly to be above living costs in the rest of Australia, and where access to services is most difficult. It would also reduce the number of concession rates from three to one, limiting recipients to a single flat offset rate equal to the current highest payment. A ZTO only for *very remote* areas would rationalise the number of income taxpayers eligible for the offset to about 60 000 (down from 480 000 who claimed the ZTO in 2016-17). These changes to the operation of the ZTO would see its annual budget cost reduced by half to around \$70 million.

Figure 3 A snapshot of the ZTO

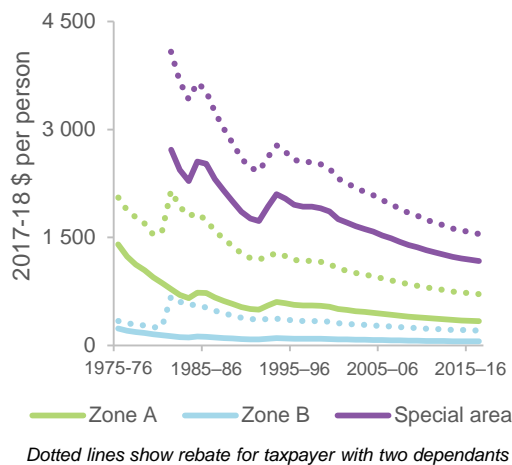
A. More than 3/4 of Australia's landmass is eligible



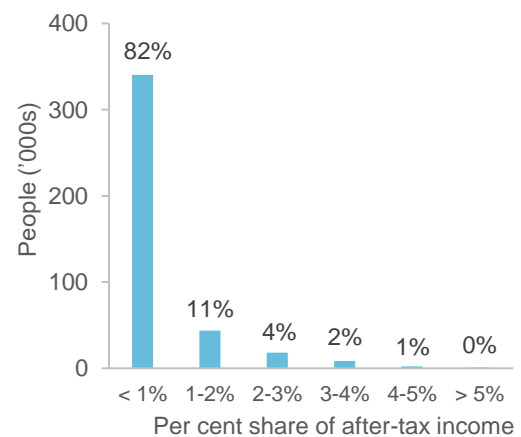
B. Nearly half of claimants reside in large coastal cities



C. The ZTO has fallen significantly in real value ...



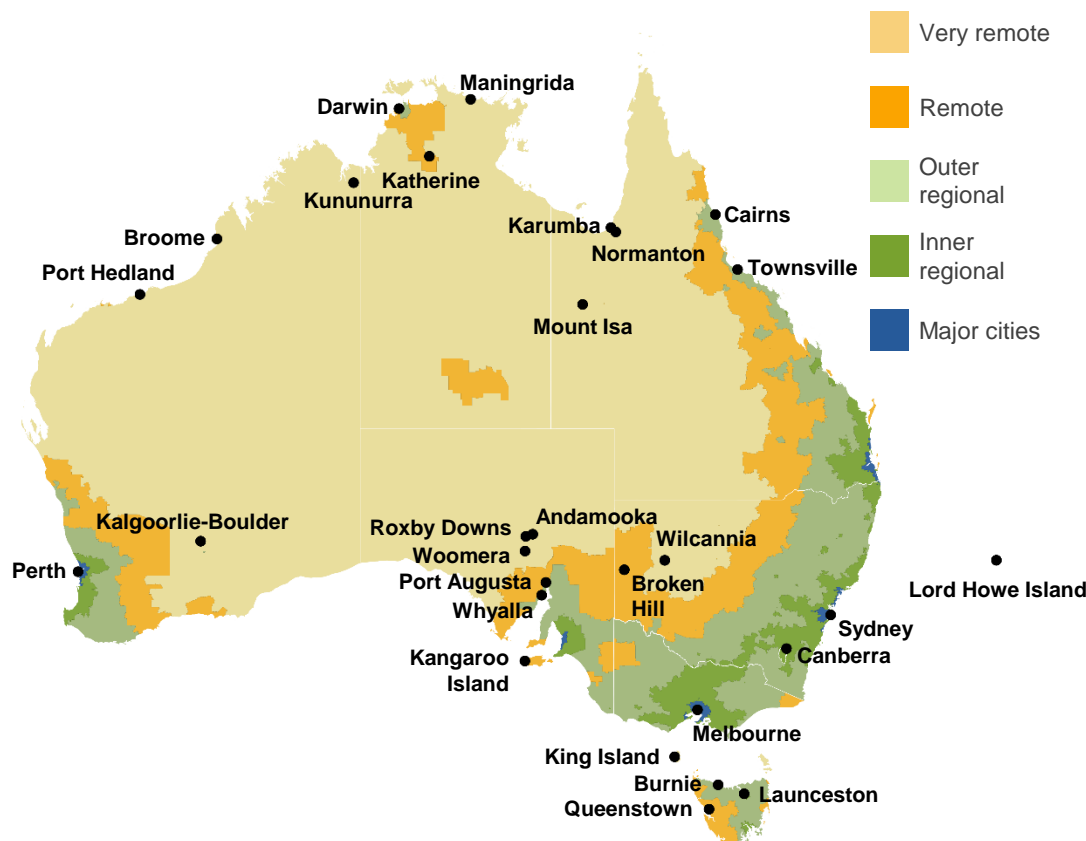
D. ... and is a small share of income for most claimants



E. Median wages and salaries are higher in the zones for many occupations



Figure 4 **ABS remoteness areas^{a,b}**
Based on the 2016 census



^a The settlements marked on the map are the places where the Commission held consultative visits. Note that, although not visible due to the scale of the map, Broken Hill, Darwin and Kalgoorlie-Boulder are classified as outer regional; Port Hedland, Roxby Downs and Mt Isa are each classified as remote. ^b Major cities include Sydney, Melbourne, Brisbane, Perth, Adelaide, Canberra and Newcastle.

But the ZTO would still lack a compelling justification

While tightening eligibility (in particular the removal of regional cities) would reduce some of the more egregious anomalies in the current ZTO boundaries, it would not solve what the Commission sees as the ZTO's lack of a compelling, contemporary rationale.

Zone tax concessions were originally designed to help remote area employers, who were seeking to attract workers to isolated areas, by reducing income tax paid on the higher wages. Since then, the marginal tax rates on high incomes have fallen significantly. The rationale for the concessions has also shifted. The 1981 Cox Review found a justification for the concession on what it termed 'social grounds'. This effectively reframed the ZTO's objective towards equity, with a focus on addressing the disadvantages of life for those living in remote areas.

Participants in this study also posited rationales for the concession. Most fall into two broad categories:

- *compensation* — for the disadvantages of living in remote areas, such as higher living costs or impaired access to Government services, along similar lines to the Cox Review
- *regional economic development* — to encourage people to live, work and start businesses in regional and remote areas and to reduce congestion in our major cities.

The Commission does not consider that higher living costs or other aspects of life in remote areas warrant compensation from other taxpayers. Everyone faces a range of advantages and disadvantages in where they live, and will typically locate themselves in the area they value most highly.

Further, as noted earlier, there is a wage differential that favours most people working in the zones in both low- and high-skill occupations (figure 3, panel E). Distinctive labour force characteristics affect these differentials, making it difficult to determine the extent to which the observed wage differential represents a ‘remoteness premium’. Nevertheless, there is some evidence that employers provide financial compensation for the disadvantages of remote living. Indeed, many State governments (as well as both the Australian Public Service and the Australian Defence Force) pay allowances to remote area workers, teachers, police officers and health care professionals. There is no general role for the Australian Government to subsidise people’s choices, or to augment these dynamics.

An exception may apply to people who live in remote areas and face significant barriers to mobility, or whose income is not primarily derived from wage earnings — a situation most likely to apply to RAA recipients (discussed later).

The ZTO is also difficult to justify on regional development grounds or as a means of mitigating congestion in cities. As the Commission found in its 2017 *Transitioning Regional Economies* report, the growth (or decline) of particular areas generally reflects their intrinsic features and economic advantages (or disadvantages). Attempts by governments to artificially create an advantage for a regional community are unlikely to be successful, and typically result in net losses to the Australian community as a whole. Ultimately, regions need to be self-sustaining.

The ZTO should be abolished

As it stands, the ZTO is ineffective and poorly targeted, and the Commission does not consider that there is a compelling, contemporary justification for it to continue.

For those recipients currently living in Zone B, the loss of the \$57 annual payment would likely be absorbed; for most others, the loss would be modest. For a small number of low-income earners residing in special areas (about 12 000 taxpayers), ending the concession would represent a more substantial loss, equivalent to between 3 and 5 per cent of their after-tax income. In a few of these special areas (particularly remote islands, such as

King Island and Lord Howe Island), the cumulative impact from the abolition of the ZTO would be larger. Over time, wages may adjust (at least partially) in response to the change, limiting these direct impacts.

Repealing the ZTO would also bear on the overseas forces tax offset (OFTO). This was introduced in 1947 and gives a tax concession to defence force employees and civilians on particular overseas assignments. The size of the concession is linked to changes in the ZTO and the Commission estimates that fewer than 1000 people currently claim the OFTO. As with the ZTO, there is not a good case for retaining the OFTO — defence employees should be compensated directly by higher remuneration, not by the tax system. The OFTO should similarly be repealed. Abolishing the ZTO and OFTO would increase Australian Government revenue by around \$150 million per year.

Remote area tax concessions for businesses

The study's terms of reference direct the Commission to consider whether businesses in remote areas should be provided with similar support to the ZTO.

The rationale for place-based business tax concessions is often predicated on encouraging businesses to relocate to particular areas to support regional development, or to reduce congestion in cities. For example, some State governments currently offer payroll tax concessions for businesses in regional areas.

The case for providing such a concession to businesses in remote Australia on these grounds is flimsy, and this approach would almost certainly create net economic costs.

This is acknowledged in the Australian Government's White Paper on Developing Northern Australia. The paper steered away from creating concessional tax arrangements across northern Australia, primarily because of the risk of 'misallocation or distorted investment decisions' stemming from preferential taxation or regulatory arrangements.

Past examples of this type of policy also show limited success in encouraging businesses to relocate to targeted areas. And those few businesses that do relocate in pursuit of a tax concession often become dependent on that concession; the measure does not create self-sustaining economic activity. Similarly, such concessions often lack transparency and impose costs to governments, while adding complexity to the tax system.

Moreover, the legality of such arrangements at the Commonwealth level would be in doubt. Not only do they risk falling foul of the Australian Constitution, but a previous special economic zone in the Northern Territory was revoked in response to the risk that it was in violation of Australia's trade agreements.

There is no credible case for the Government to provide company tax offsets specifically to businesses in remote areas. Consistent with its previous work, the Commission views that there are more effective (and less distorting) ways for governments to support businesses in

remote areas, if and where appropriate, without introducing (further) inefficiency, inequity and complexity into the tax system. These include, for example, removing unnecessary regulatory impediments on business development *regardless* of location.

The remote area allowance

The RAA is a supplementary payment for income support recipients (such as age and disability support pensioners and recipients of Newstart allowance and parenting payment) living in eligible remote zones. It was introduced in 1984 in response to the Cox Review, which found that:

The zone allowance is not a good form of assistance for all people living in isolated areas. Individuals whose income is insufficient for whatever reasons are unable to take advantage of the tax rebate. Persons whose main source of income is a social security benefit are excluded from any benefit. The visits to remote areas by the Inquiry revealed serious problems for such people, particularly pensioners, because their income is often insufficient to meet the costs of living in such localities and/or making their residency more pleasant. (Cox et al. 1981, p. 29)

The objective of the RAA is specifically to compensate for the higher cost of living in remote regions. It is paid automatically each fortnight as a flat payment across all eligible remote areas and income groups. For a single individual, the fortnightly rate translates to a payment of about \$470 a year and for a couple with two children it translates to \$1190 a year. Recipients of the RAA may also be eligible for the ZTO, but receipt of the RAA reduces the ZTO claimable on a dollar-for-dollar basis.

The Australian Government spends around \$44 million on the RAA each year, reaching over 113 000 income support recipients in eligible areas. Eligible zones for the RAA are the same as those for the ZTO, except that ordinary Zone B is excluded (figure 5, panel A).

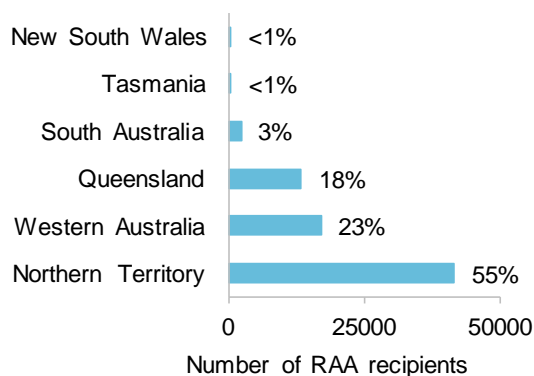
The RAA is unusual in that its beneficiaries are concentrated: geographically, by socioeconomic status and by ethnicity. The majority of recipients are located in the Northern Territory, with one-in-five Northern Territorians over the age of 15 years in receipt of the payment (figure 5, panel B). Half of all RAA recipients fall within areas of the highest socio-economic disadvantage (figure 5, panel C) and almost 65 per cent of recipients are Indigenous Australians. This means that even small changes to the RAA could have a significant cumulative impact on some communities.

Figure 5 **A snapshot of the RAA**

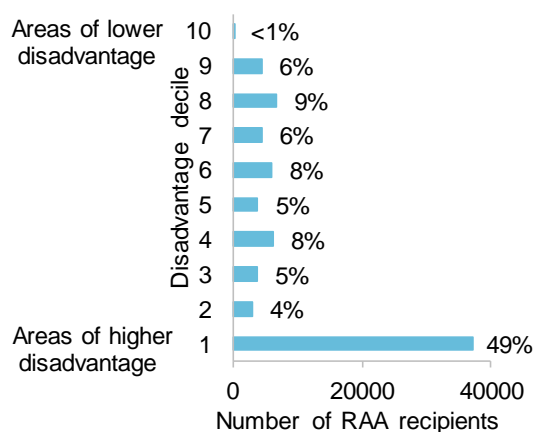
A. Current RAA areas



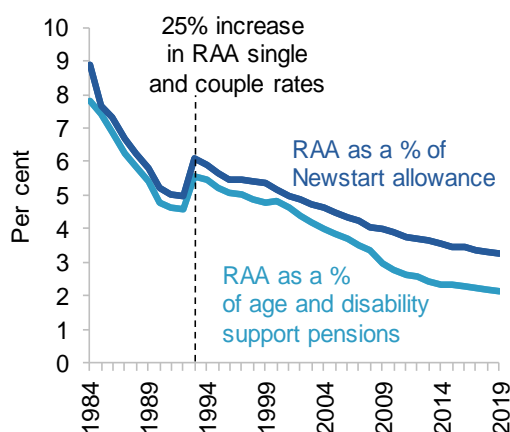
B. Most RAA recipients live in the NT



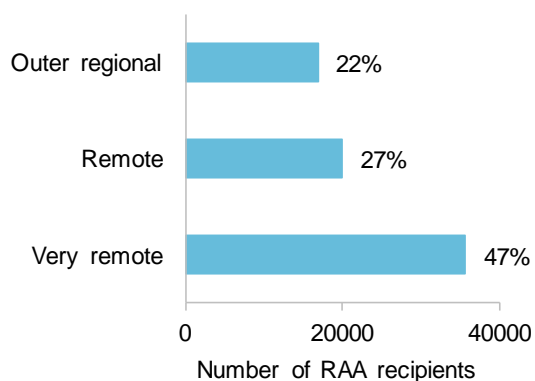
C. Most RAA recipients live in areas of high disadvantage



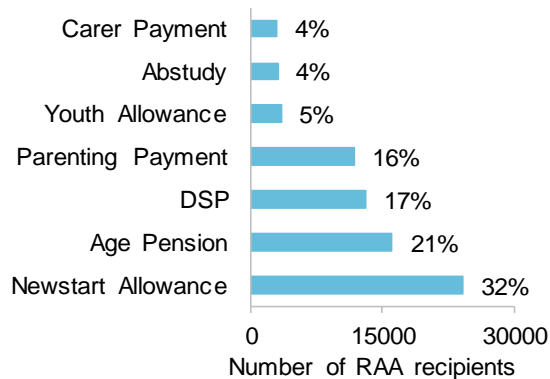
D. The RAA has been falling in real value



E. Most RAA recipients live in remote and very remote areas



F. Four key income support payments are associated with the RAA



Other notable characteristics of RAA recipients include:

- the majority are in receipt of either the Newstart allowance, age pension, disability support pension or parenting payment
- just over half have been in receipt of an income support payment for over five years
- fewer than one-in-ten had employment earnings in the fortnight prior to being surveyed
- beneficiaries are predominantly in the 25 to 34 years and the 65 years and over age groups.

Is there a contemporary rationale for the RAA?

The RAA is premised on income support recipients in remote areas being disadvantaged relative to income support recipients in non-remote areas due to higher living costs. While the evidence is not definitive, the Commission has found that living costs tend to increase with remoteness, with the special areas and ordinary Zone A having higher living costs, on average, than adjacent regional areas and state capital cities.

As with the ZTO, an area having higher living costs does not of itself justify government ‘compensation’. However, there are some important differences between the ZTO and the RAA that sway the balance towards retaining the RAA in some form. First, whereas employers can provide higher remuneration to attract and retain workers in remote locations, there is no equivalent ‘market mechanism’ to compensate income support recipients who are predominantly not in the workforce.

Second, RAA recipients are generally more likely to face impediments to moving locations (and in particular to moving from in-zone to out-of-zone) than those in jobs.

- Social and cultural connections and personal circumstances can anchor people to particular places. This is particularly relevant for Indigenous Australians in remote areas, who constitute over half of all RAA recipients. Census data reveal that Indigenous Australians, particularly in *very remote* areas, are much less mobile than non-Indigenous Australians.
- Census data also indicate that people on a very low income in remote areas, which would include some RAA recipients, tend to be less mobile than those on higher income.
- Further, a third of RAA recipients are 55 years of age or over (and one quarter are 65 or over), which may also render them less mobile than ZTO beneficiaries who will typically be of working age.
- And in some particularly remote places, land and housing markets can be highly illiquid, geographically tying home-owning residents to the area. This means that disadvantaged people in remote areas are likely, on average, to have fewer options than otherwise similarly disadvantaged people in non-remote areas.

These limits on the mobility of many RAA recipients, relative to most ZTO beneficiaries, mean that the former’s decisions to live in a remote area, and to incur the higher living costs

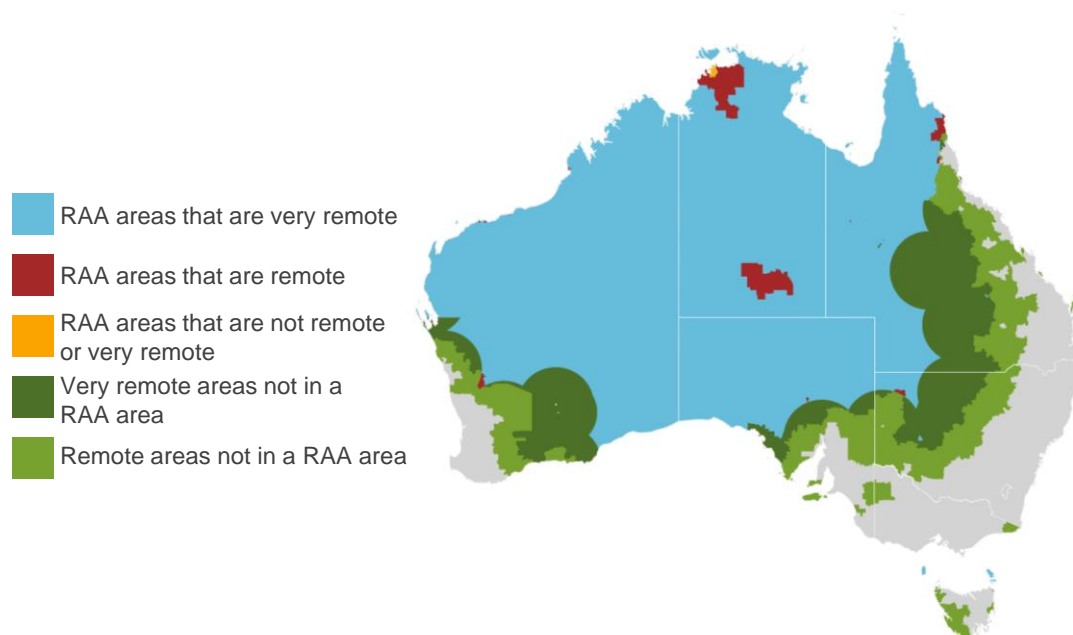
that entails, involve less real choice. In turn, this strengthens the case for governments to provide some compensation for those higher costs.

A refresh is required

The boundaries should be updated

As with the ZTO, the RAA zones do not reflect contemporary definitions of remoteness. Zone A is based largely on boundaries drawn in 1945, and current special areas are based on town sizes as measured in the 1981 census.

Figure 6 **RAA areas do not reflect contemporary definitions of remoteness**



There are significant areas of Australia that are classified as either *very remote* or *remote* by the ABS, but are not eligible for the RAA. These include expansive areas in Queensland and New South Wales, and areas in the south east of South Australia, the south west of Western Australia and the west coast of Tasmania (figure 6). On the other hand, Darwin is classified as *outer regional* rather than *remote* by the ABS, but Darwin residents are currently eligible for the RAA.

The Australian Government should redraw RAA boundaries to align with the ABS definition of *remote* and *very remote*. The new boundaries would exclude an estimated 25 000 (annual) recipients in Darwin, but would include around 68 000 newly eligible recipients, resulting in a net increase of 43 000 recipients. Places that would be brought into the RAA area include

Wilcannia, Longreach, the Yorke Peninsula and Tasmania's Central Highlands. Under this scenario, and if existing RAA payment rates were maintained, a modest increase in budgetary outlays of approximately \$17 million a year could be expected.

Boundaries should be adjusted when the ABS definitions of *very remote* and *remote* areas are updated (currently on a five-yearly basis).

RAA payment rates may need a reset

Payment rates have been increased only twice since the RAA's inception, and no adjustments have been made in almost 20 years. Because the RAA (unlike its associated income support payments) is not indexed, the payment rates of the RAA as a share of the primary income support payment have fallen over time. For example, the RAA payment as a percentage of the maximum age and disability support pension for a single person has decreased from 7.8 per cent in 1984 to 2.2 per cent today (figure 5, panel D).

Ideally, the level of RAA payment would be adjusted to take account of both inflation and the difference in prices between remote and non-remote areas. Standard indexes like the Consumer Price Index only measure price movements in capital cities, not the way those prices have evolved relative to prices in remote areas. Compiling and updating an index that was fit for purpose would mean incurring material fixed costs, and such an index would have limited usefulness for other purposes. The Commission's preferred approach is for the Department of Social Services to periodically review RAA payment rates.

In determining the payment rates, policymakers need to consider other assistance measures (such as commonwealth rent assistance) that help to address cost of living pressures. It is also important that the provision of the RAA does not generate perverse effects such as reducing work incentives.

In practice, these considerations imply that the appropriate rates of the RAA would be less than that necessary to fully compensate recipients for higher living costs in *remote* and *very remote* areas. There is, however, no straightforward formula to say what the discount should be. The Commission will undertake further work on the appropriate level of the RAA with a view to the Australian Government revising the rate, if necessary, following the completion of this study.

RAA should be reviewed periodically

As Australia's regions are always changing, it is important to periodically review how well the RAA operates to ensure that it is effective and responsive to change. Periodic public review would also improve accountability and awareness of the RAA.

The Commission proposes that the RAA be reviewed periodically by the Department of Social Services, and that the reviews be made public.

Fringe benefits tax remote area concessions

FBT was introduced in 1986 to tax remuneration provided to employees in a form other than wages, and as an integrity measure to prevent this ‘remuneration in kind’ from being used to lower personal income tax obligations.

FBT is levied at a flat rate of 47 per cent, equivalent to the top marginal individual income tax rate (plus the Medicare levy). It applies to any goods and services provided to employees, including through reimbursement of employee expenses, except where an exemption is specified in legislation. A key feature of the regime is that the high rate of tax discourages the provision of goods and services in favour of wage income, except where there is concessional treatment.

Under Australia’s FBT regime, specific concessions apply to the provision of certain goods and services to employees working in designated remote areas. Although these concessions have elements in common with the ZTO and the RAA — in that they all provide assistance to people or businesses through the tax and transfer system based on their location in Australia — they also differ significantly in their objectives, operation, and impacts. The remote area concessions take two different forms:

- exemptions, whereby the good or service is not subject to any FBT
- partial concessions, whereby (in most cases) the taxable value of the good or service is reduced by 50 per cent for FBT purposes.

Subject to eligibility criteria (box 1), the following FBT remote area concessions apply.

- Housing owned or leased by the employer and provided to an employee as their usual place of residence (hereafter, employer-provided housing) is exempt from FBT.
- Various forms of financial assistance with employee-sourced housing, such as assistance with rent or with mortgage interest payments, are subject to a 50 per cent concession.

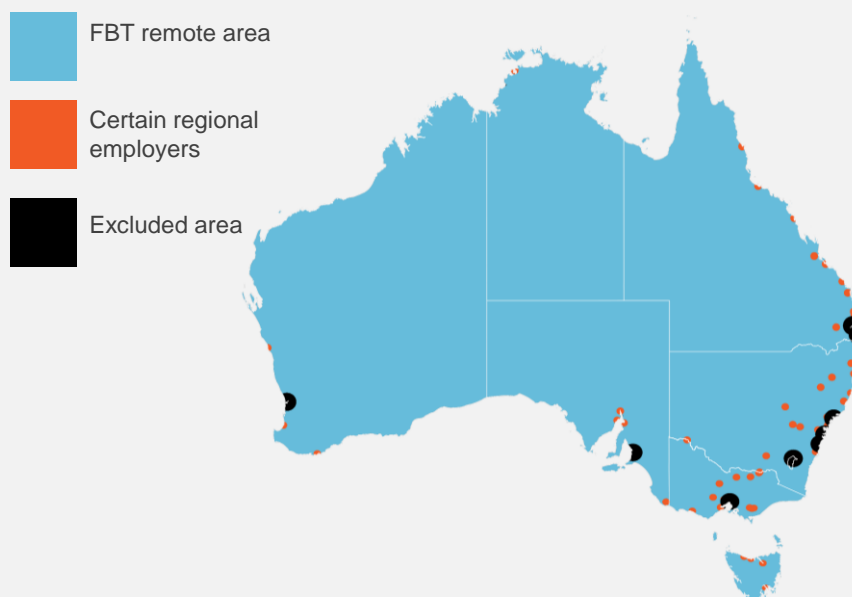
Box 1 Eligibility criteria for the FBT remote area concessions

Eligibility criteria must be met in order to access the FBT concessions. The criteria differ across the various concessions. For instance, for employer-provided housing, employers must demonstrate that they meet *one of three tests* to show that the provision of housing is *necessary*: i) employees may be required to move; or ii) there are *insufficient alternatives*; or iii) it is '*customary*' in the industry. However, in the case of assistance for employee-sourced housing, the requirement for it to be '*customary*' must be met.

The geographic boundaries that define 'remote areas' for FBT purposes are based on the distance between the employee's location and various-sized 'eligible urban areas', defined by population figures from the 1981 census.

- In (ZTO) Zone A or B, for a location to be remote for FBT purposes it must be at least 40 kilometres (kms) from an 'eligible urban area' of 28 000 or more people and at least 100 kms from an eligible urban area with a population of 130 000 or more.
- Outside (ZTO) Zone A or B, for a location to be remote it must be at least 40 kms from an eligible urban area with a population of 14 000 or more and at least 100 kms from an eligible urban area with a population of 130 000 or more.
- For exempt remote area housing provided to employees of certain regional employers (essentially public hospitals, charities and police), any location at least 100 km from an eligible urban area with a population of 130 000 or more counts as remote.

These criteria lead to a definition of 'remote' for FBT purposes that covers most of the Australian landmass, including parts of Victoria. As this definition is based on 1981 populations, it encompasses some population centres that would now exceed the thresholds. For example, using population data from the 2016 Census, Kalgoorlie (and locations within a 40 km radius) would no longer be considered remote. Around Cairns and Townsville, areas within a 100 km radius would no longer be deemed remote, and the exemption for housing would no longer be available to 'certain eligible employers' in these locations.



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- Temporary accommodation, meals, and transport for fly-in fly-out (FIFO) and drive-in drive-out (DIDO) employees (hereafter generally referred to as FIFO arrangements) are exempt.
 - The provision of residential fuel (including electricity and gas) and holiday transport attract 50 per cent concessions, while meals provided to primary production employees are exempt.

It is noteworthy that while the *Fringe Benefits Tax Assessment Act 1986* (Cth) (FBTAA) includes concessions for goods and services provided to people employed on a FIFO basis, only one of these concessions — for remote area transport — explicitly links eligibility to remoteness. Temporary accommodation and meals for FIFO workers can be provided under the living-away-from-home allowance provisions (Division 7 of the FBTAA) to complement the remote area transport exemption, but these exemptions can be claimed by employers regardless of where the employee works. FIFO arrangements can also be exempt under the ‘otherwise deductible’ rule in the FBTAA, which is also not subject to the FBT remote area boundaries.

Views differ on whether the policy intent of the FBT remote area concessions is to provide equitable tax treatment where employers have operational requirements to provide particular goods and services to employees, or to promote regional development by giving employers greater financial capacity to attract and retain employees, or both.

The use and economic effects of FBT concessions

Determining the extent to which the FBT remote area concessions are used means confronting significant data issues. Employers are not required to report exempt goods and services to the Australian Taxation Office, and the expense is not discernible from their other expenses. Where partial concessions are used, the reporting is insufficiently detailed to separate out the remote area concessions from other concessions that apply Australia-wide.

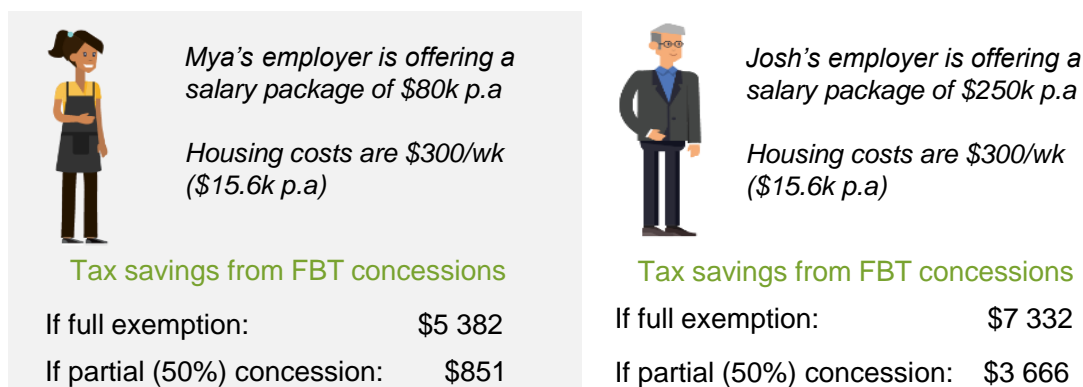
In spite of these challenges, the Commission has attempted to shed some light on the use of these concessions, to provide a better sense of their potential costs to the Government, and to gauge their economic impacts. This process has included surveying three sectors, namely mining, agriculture and local government administration.

The exemption for employer-provided housing is the big ticket item

The exemption for employer-provided housing (as usual place of residence) is uncapped and can be worth many thousands of dollars at the employee level (figure 7). Tax savings from the exemption are greater for people on higher than average incomes, reflecting the difference between their personal marginal tax rate and the effective tax rate on exempt housing (0 per cent). The tax savings from the exemption are also much higher than those associated with a partial concession.

Figure 7 Tax savings from the housing exemption are much greater than for the partial concessions^{a,b,c,d}

Compared with the employee paying for housing from their after-tax income



^a For employer-owned property, 'housing costs' would be the equivalent market rent. ^b In these examples, the partial concession (a 50 per cent reduction in taxable value) is applied to the total housing costs. Where employers reimburse less than the full amount of an employee's gross rent expenses, the reduction in taxable value can be larger (up to 100 per cent). ^c For simplicity, the following have been excluded: the effect on the employer's superannuation guarantee liability, other costs associated with labour (for example, payroll taxes), and tax offsets and deductions. ^d Estimates are based on 2017-18 income tax rates.

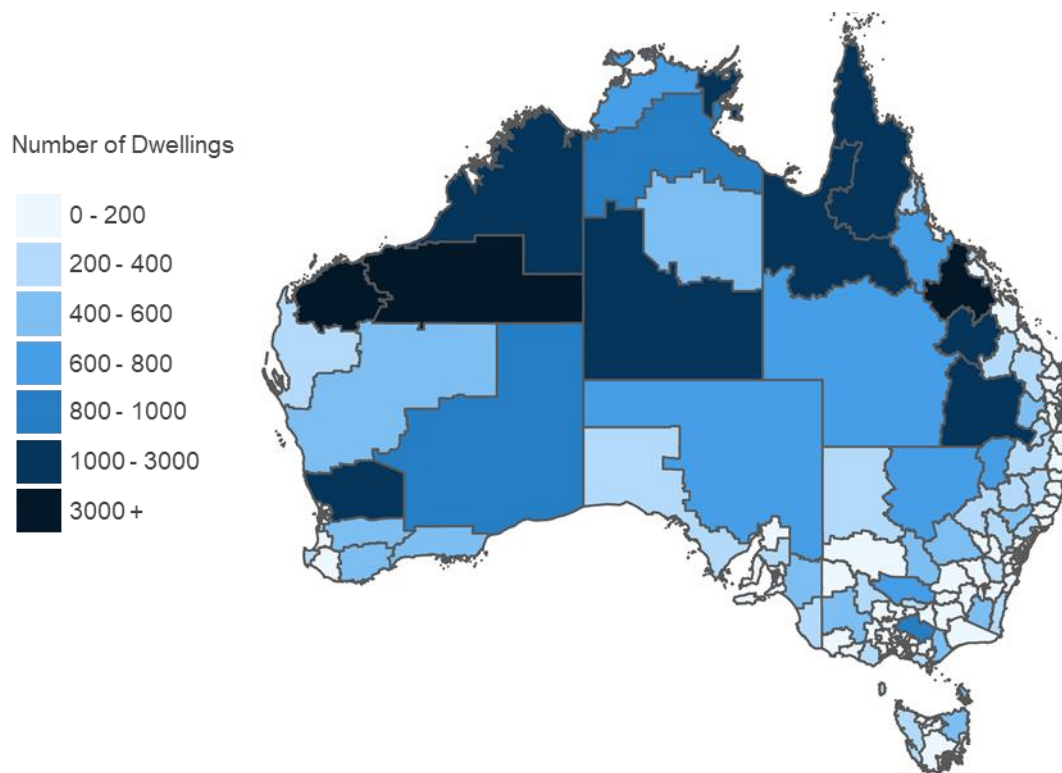
Use of the exemption for employer-provided housing is concentrated in certain areas — such as the Pilbara in Western Australia, and the Central Highlands and Bowen Basin in Queensland — and in industries such as mining, agriculture, and public services (including hospitals, police, and local government) (figure 8).

Concessions tend to increase employment by reducing labour costs, particularly in regions where these concessions are heavily used. They also tend to draw resources away from other regions (or industries in the same region) that cannot access them.

Many larger employers consider the exemption an important tool for attracting staff to remote areas. Smaller businesses are less likely to provide housing. This (in part) reflects the financial risk associated with owning properties if an employee vacates the property.

The exemption for employer-provided housing is estimated to be used for approximately 36 000–46 000 homes in the designated remote areas and cost between \$210–430 million per year.

Figure 8 Employer-provided housing is concentrated in certain more remote areas



The FIFO conundrum

The use of FIFO work practices elicits strong, but mixed, views.

Many study participants argued that the functionality of townships is threatened by large-scale FIFO practices, and that FBT concessions for FIFO workers contribute to this effect. Regional authorities often struggle to maintain infrastructure and a sense of community with a transient and non-rate-paying population.

People from source communities and industry take a more positive view of FIFO operations. They contend that businesses use FIFO workers simply because it is difficult to source and retain the necessary skilled labour in remote areas.

It is difficult to determine the extent to which FBT concessions for FIFO workers affect any one employer's decision between employing a local or FIFO workforce or the mix between the two — although, in general, it is unlikely that the concessions would be the main motivator. Other economic and social factors are at play. The significance of the one concession for FIFO workers that explicitly links eligibility to remoteness would be even less.

FIFO is generally the preferred approach to manage the construction phase of projects in remote areas because of the scale and temporary nature of the workforce and the difficulty of sourcing skilled construction workers locally. Typically, businesses (particularly in mining) will only establish a residentially-based operation where there is already a community nearby with at least basic services and a degree of liveability.

Other concessions are much less significant

The use of other FBT remote area concessions (such as those on employee-sourced housing, residential fuel, meals for primary production employees, and holiday transport) is limited. This reflects compliance costs — symptomatic of the complexity of the broader FBT legislation — and the limited tax savings from the 50 per cent concessions, which result in an effective tax rate of 30.7 per cent. Figure 7 demonstrates that tax savings from the 50 per cent concessions are much smaller than tax savings from the full exemption.

The value of these other concessions is uncertain, but could be in the range of \$30-\$130 million for residential fuel, meals for primary production employees, and holiday transport collectively (Commission estimates based on ABS data; Treasury 2019).

Assessment of the FBT tax concessions

Given the differing views on the intent of remote area tax concessions, it is unsurprising that some participants are dissatisfied with how they operate. For those who see the role of remote area concessions as promoting regional development — both to exploit economic opportunities in remote areas and to deliver services to remote area communities — the concessions are too difficult to access (particularly for small business) and fail to encourage people to live and invest in the area. For those who see concessions as a way of correcting for the inequities of the FBT regime, there is staunch opposition to any tightening of current concessions (including exemptions for FIFO arrangements). Many argued instead for making the remote area concessions more financially attractive and accessible — for instance, by changing partial concessions to exemptions.

The concessions are poorly targeted to regional development goals

While many participants expressed the view that the concessions were important for regional development, the FBT concessions are not well suited for that purpose.

Businesses typically have commercial incentives to invest in projects if the expected returns exceed the costs and risks. There is no basis for governments to subsidise this process by offering FBT concessions for remote areas.

State and Territory governments carry primary responsibility for regional development, and each jurisdiction will have its own challenges and priorities. A broadly-applied tax concession is unlikely to be a cost-effective approach to incentivise employees or employers

to move to or invest in specific regions in a way that aligns with these priorities. Furthermore, the boundaries — which encompass 97 per cent of Australia’s landmass — are too broad to target regional development. In fact, they might actually counteract regional development objectives; some participants stated that it was better to have targeted policy settings that encourage investment in regional hubs to ensure access to services such as health, and capture economies of scale, than to locate services in smaller remote towns.

Concessions to address inequities in the FBT regime are justified, but current arrangements go well beyond ‘equitable tax treatment’

The most compelling argument for FBT remote area concessions is that they address inequities inherent in the FBT regime. In some cases, employers have operational requirements to provide goods and services (such as housing) to employees, and it would be inequitable to apply the full rate of the FBT. The full rate discourages the provision of remuneration in kind, but where this is unavoidable it creates a larger tax obligation (in most cases) than if the employee was paid the equivalent in wages.

Equitable fringe benefits tax (FBT) treatment, including the rate of any concession, depends on the likelihood that there is an operational reason for an employer to provide the good or service and on whether it privately benefits the employee.

- Where there is an operational reason to provide a good or service to an employee, but that good or service does not privately benefit the employee, there is a strong basis for it to be exempt from FBT. Exemptions could also extend to cases where the private benefit (and forgone tax revenue) is sufficiently small relative to other factors, such as the compliance burden that would be imposed by subjecting it to FBT.
- Where there is an operational reason to provide a good or service that also privately benefits the employee, a partial concession may be warranted. While the FBT regime generally penalises the provision of goods and services to discourage non-wage remuneration, a full exemption achieves the opposite. A partial concession can achieve a better balance, reducing incentives to provide goods or services instead of wage income without overly penalising employers in instances where these goods or services must be provided.
- Where there is no operational reason to provide a particular good or service — where it is not required in order to perform employment duties, and can be readily purchased by the employee themselves — there is no case for an FBT concession, and employees should purchase these goods and services themselves from their after-tax income.

In the case of FIFO arrangements, there is an operational requirement to provide temporary accommodation, meals and transport, but there is no clear benefit to employees that would warrant the imposition of FBT.

Current concessions err on the side of being overly generous

Current remote area concessions are often not well targeted.

Full exemptions for employer-provided housing (as usual place of residence) are available across much of Australia. Although there are cases (such as remote farms) where the provision of housing is an operational requirement that warrants concessional treatment to avoid punitive taxation, the size and scope of current exemptions are too expansive for this purpose.

The general principle in individual income tax law is that taxpayers are entitled to claim deductions for expenses (that are not reimbursed by their employers) incurred wholly for the purpose of earning an income, as well as for the work-related portion of those expenses that are both work-related and private in nature.

The distinction between a work-related expense and an expense that is private in nature has evolved over time through case law. For accommodation expenses, a key consideration is whether an expense is dictated by work or by a personal choice about where to reside. The provision of the ‘usual place of residence’ by employers would appear to fall under that umbrella.

A *full exemption* for employer-provided housing is overly generous given that the provision of housing for use as an employee’s usual place of residence benefits the employee. Most people have to pay the costs associated with their usual place of residence from after-tax income, but using the exemption provides eligible employees with significant tax savings: the portion of their remuneration provided as housing is taxed at 0 per cent rather than at their marginal individual income tax rate. This advantage holds even where there is no alternative to employer-owned housing, or where an employee chooses to retain their previous residence.

Additionally, current eligibility rules mean that the exemption is available in areas where there are other housing options available and, because it is not tax-neutral, it can create a significant incentive for employers to provide goods and services in lieu of wage remuneration. Consequently, high-income individuals could in principle use the exemption for expensive properties in less remote places like Cairns or Byron Bay.

A more targeted approach is warranted

Given that the strongest argument for concessions is to address inequities inherent in the FBT regime, there are ways to better target the concessions to achieve this objective. The most significant of these changes relates to employer-provided housing.

Any redesign of the FBT remote area concessions needs to balance two considerations: improving tax neutrality between different kinds of remuneration, and minimising compliance and administration costs. Achieving tax neutrality for goods and services

provided in remote areas would improve the integrity of the tax system, and would mean that people receiving similar overall levels of remuneration would pay similar amounts of tax. However, the scope for achieving tax neutrality under the current FBT regime is limited. In most circumstances, the applicable FBT rates on employer-provided goods and services will differ from employees' tax rates on additional wages, resulting in an incentive to favour one form of remuneration over the other.

Broader reforms to the operation of FBT and other components of the income tax system — for instance, taxing fringe benefits in the hands of employees as suggested by the Henry Review — would address neutrality concerns and fundamentally alter the case for specific concessions. In the absence of broader changes to FBT, there is a need to better target access to the concessions. This involves examining the nature of each type of good or service provided by employers, determining whether a concession is warranted, and deciding what form any concession should take.

Exemptions for employer-provided housing should be partly wound back

The Government should revert the exemption for employer-provided housing (as usual place of residence) to a partial concession (as it was prior to 2000), and tighten eligibility rules. This would reduce the incentive to use employer-provided housing in cases where it is not an operational requirement, without penalising employers in cases where it is a requirement (with rare exceptions).

For employees with annual income higher than \$37 000, a 50 per cent concession would still provide a cost saving compared with paying for accommodation from after-tax income. The Commission estimates that about 85 per cent of people who live in a FBT remote area and whose employer provides them with a home would fall into that category.

Amending the eligibility rules to focus use of the concession on cases where there is an operational requirement would further limit scope for the proposed partial concession to be used in tax reduction strategies and improve the integrity of the income tax system. To this end, the Government should also remove provisions that allow employers to claim the existing exemption for employer-provided housing merely because it is 'customary', or in less remote areas where they are 'certain regional employers'.

- The 'customary' rule explicitly allows the existing exemption to be used (by some employers) in locations where there is sufficient alternative accommodation available — that is, where there is no operational reason for the employer to provide the housing.
- The rationale for the 'certain regional employers' provision is not explicit. It aligns more with regional development and the provision of services than with equitable tax treatment. However, given that the additional areas are more populous towns, the need to provide accommodation for operational reasons is less credible.

Some broad-brush effects of changing the FBT concession rules

Changes to the FBT concession rules can be expected to have local and broader effects. Individual tax savings would decrease — reducing use of the concession and increasing aggregate tax revenue. Changing the exemption for employer-provided housing to a 50 per cent concession would substantially reduce the tax savings for individuals, although the reduction in tax savings would vary with income. For the vast majority of individuals (with income above \$37 000), the partial concession would still provide tax savings relative to a no-concession scenario.

Assuming no change in the provision of employer-provided housing, the shift to a 50 per cent concession could raise about \$105–215 million in FBT (appendix C).

In practice, employer behaviour would change. Some employers would continue to provide housing, and pay FBT on that housing, but might reduce employee wages in order to recoup some of the extra tax payments; this would lower income tax receipts. Other employers might cease to provide housing and instead increase employee wages. This could be an attractive option where a private housing market exists, or where the FBT concession results in a tax disadvantage for employees on incomes below \$37 000.

Compliance costs are likely to increase

Changing from an exemption to a partial concession would increase compliance burdens. It might require employers to submit FBT returns, which they could formerly have avoided when using exemptions. Determining the value of housing provided to employees could also be a challenge, particularly in the absence of a housing market. These additional compliance burdens would likely have a disproportionate effect on smaller employers — some of whom might only provide housing to a single employee. That said, it is worth noting that employers providing housing to employees are disproportionately likely to be larger businesses.

On balance, the Commission considers that the additional compliance costs are more than offset by the benefits of more equitable tax treatment and a broader improvement in the integrity of the income tax system. The Board of Taxation should maintain its focus on identifying ways to reduce the compliance burden on all organisations reporting FBT payments.

The employment and regional effects are not straightforward

To the extent that removing the exemption or reducing the value of FBT concessions has a material impact on costs and the viability of projects, any resulting decline in economic activity may have a knock-on effect on some remote areas. While these effects are generally likely to be small and dispersed, there may be discernible effects on local employment and housing markets in areas where there is a concentration of affected businesses.

Nevertheless, where employer-provided housing is most prevalent, such as in the Pilbara, the value of the current exemption for employer-provided housing (which is estimated to be in the range of \$10-50 million per year for the Pilbara) is small relative to the economic output of the region. As such, it is unlikely that changes to the existing exemption will have significant impacts on the viability of resource projects in the region. Indeed, changes in the economic and employment levels of these regions are much more significantly affected by commodity price volatility.

Reducing tax savings from the concession and removing the additional areas for ‘certain regional employers’ could nonetheless affect service delivery, especially where service delivery agencies are budget-constrained and have limited revenue-raising options. This may be true of local governments and not-for-profit providers. The potential loss of capacity to deliver services that could result from these changes to FBT concessions needs to be duly considered.

Changes to other types of remote area concessions

In addition to changes to the exemption for employer-provided housing, this draft report also proposes changes to the other remote area concessions (table 2). In particular, the Commission proposes that the Australian Government:

- remove the current 50 per cent concessions on employee-sourced housing (such as rent or mortgage assistance). These partial concessions do not satisfy the condition that there is an operational requirement for employers to provide the assistance. They are premised on employees having secured their own housing; if employees are able to secure their own housing, such assistance is substitutable with wage income.
- retain the partial concessions on residential fuel for use in conjunction with employer-provided housing, as well as the exemption for meals for primary production employees. However, eligibility for both should be tightened to include only those cases where there is an operational requirement to provide the meals or fuel. It may be possible to reduce the complexity of the exemption for meals.
- remove the partial concessions on holiday transport. Holiday transport directly benefits employees, but there is no operational requirement to provide it, so it is inequitable for it to be partly funded by taxpayers.

Changes to these remote area concessions are expected to have only limited effect, as the concessions are narrowly used and are low in value.

FBT remote area boundaries

Although there is a case for retaining geographical boundaries, they carry some risks. Geographical restrictions are a comparatively simple, objective, and intuitive way to approximate those circumstances the concessions attempt to target (particularly for housing) and reduce the need for prescriptive eligibility rules. However, the specific areas included

and excluded are contestable. Drawing boundaries too narrowly risks excluding cases where it is necessary to provide goods and services, such as housing to employees (for example, on farms in less remote areas). Conversely, defining the areas too broadly makes the concessions more likely to be used in cases where they are not necessary.

Making the concessions more tax neutral, particularly by changing the remote area housing exemption to a 50 per cent concession, would reduce incentives for employers to provide goods and services (especially housing) where there is no operational requirement to do so. This would reduce the costs of drawing boundaries too widely, as the boundaries would become less critical in regulating use of the concessions.

A second drawback of the current geographical boundaries, which the proposed changes do not mitigate, is that the boundaries raise constitutional validity issues.

Although the current boundaries for FBT remote area concessions would be broadly fit-for-purpose if combined with proposed changes to the rate of the housing concession and the removal of other concessions, there is a case for updating them to reflect current populations and decisions made on the zone tax offset.

The FBT remote areas are currently defined by distances from towns that had populations above certain thresholds in 1981. These thresholds vary depending on whether the town is within or outside the current ZTO boundaries: within the ZTO zones, towns of up to 28 000 people (and the surrounding areas) are considered remote for FBT purposes, whereas the threshold outside of the zones is only 14 000 people. A minimalist approach would be to update town populations and remote area boundaries based on the 2016 Census, and thereafter to review periodically. Other options include:

- linking FBT remote area boundaries to ABS remoteness areas for determining the population thresholds of towns rather than the existing Zones A and B
- decoupling the FBT remote area boundaries from the ZTO boundaries, by removing the zone-based differences in population thresholds for eligible urban areas
- removing geographic restrictions altogether.

The draft report invites feedback on the relative merits of different options for redefining the boundaries for FBT remote area concessions.

Summary of proposed changes to FBT remote area concessions

Conditional on a number of assumptions (made necessary by the paucity of data), the Commission has attempted to assess the main impacts of the proposed changes. The Commission is open to feedback from stakeholders on its assumptions and methods as outlined in appendix C.

Table 2 summarises the Commission's proposed changes to the design of FBT remote area concessions. It should be noted that the Commission is not proposing changes to the existing

concessions for FIFO arrangements. Although the proposed changes to remote area concessions (table 2) are expected to benefit the broader Australian community, the Commission is seeking further information to understand how these would play out in specific remote areas.

Table 2 Proposed changes to FBT remote area concessions

	<i>Current concessions</i>	<i>Proposed changes</i>
Employer-provided housing	Exemption from FBT for employer-provided housing in designated remote areas (FBTAA, s. 58ZC)	<ul style="list-style-type: none"> • Change the exemption to a 50 per cent concession • Remove the provision that enables employers to claim the concession because it is 'customary' to provide housing (s. 58ZC(2)(d)(iii)) • Remove the extension of the concession to additional areas for 'certain regional employers' (s. 140(1A))
Employee-sourced housing	Partial (50 per cent) concession on other forms of housing assistance in designated remote areas (FBTAA, s. 60)	<ul style="list-style-type: none"> • Remove the partial concessions on employee-sourced housing
Temporary accommodation, meals and transport for FIFO workers	Exemption from FBT for temporary accommodation, meals and transport for FIFO workers (Note: remote area transport (s. 47(7)) is the only concession linked to remote area boundaries)	<ul style="list-style-type: none"> • No change to existing concessions for FIFO arrangements
Residential fuel	Partial (50 per cent) concession for residential fuel used in housing that attracts an FBT remote area concession (FBTAA, s. 59)	<ul style="list-style-type: none"> • Limit access to the concession for use in conjunction with employer-provided housing to instances where there is an operational requirement for the employer to provide residential fuel (s. 59(1)) • Remove concession for use in conjunction with employee-sourced housing (s. 59(2) and (3))
Meals for primary production employees	Exemption from FBT for meals provided to primary production employees on work days (FBTAA, s. 58ZD)	<ul style="list-style-type: none"> • Limit access to instances where there is an operational requirement to provide meals • Remove the definition limiting the exemption to meals 'ready for consumption'
Holiday transport	Partial (50 per cent) concession on return holiday transport to specified destinations. (FBTAA, ss. 60A and 61)	<ul style="list-style-type: none"> • Remove the holiday transport concession

Recommendations, findings and information requests

The broader context

DRAFT FINDING 2.1

The broader context for remote area tax concessions has changed considerably since their introduction in 1945. Technological advances have helped lessen the hardships of life in remote parts of Australia. Some areas once considered isolated, such as Cairns and Darwin which are now home to international airports and populations exceeding 100 000 people, can no longer reasonably be considered remote.

DRAFT FINDING 2.2

Among the 2 per cent of Australians who live in remote areas, Indigenous Australians constitute 28 per cent of the population. There are large differences in income and employment outcomes between the Indigenous and the non-Indigenous population. Indigenous Australians in remote areas are also significantly less likely to relocate compared with their non-Indigenous counterparts.

DRAFT FINDING 2.3

There is some evidence that the cost of living increases with remoteness.

DRAFT FINDING 2.4

Although life in remote Australia has a unique set of challenges, many Australians choose to live there because of the pace and quality of remote life, or because of close personal or cultural attachments to places or to communities. Others move to remote areas in pursuit of economic opportunity.

DRAFT FINDING 3.1

Remote area tax concessions and payments form just one small part of the broad suite of measures put in place by all levels of government to support individuals, businesses and communities and to facilitate development in regional and remote Australia.

INFORMATION REQUEST 1

The Commission is seeking data (to augment the data used in this draft report) capable of supporting a comparison of the cost of living in different parts of Australia, particularly in relation to housing costs.

The zone tax offset

DRAFT FINDING 4.1

The remoteness areas published by the Australian Bureau of Statistics would be a more suitable basis for defining zone tax offset boundaries. They are widely used, including by State governments and the Commonwealth Grants Commission, and are updated after each census using a transparent and well-understood methodology.

DRAFT FINDING 4.2

The zone tax offset (ZTO) is flawed and outdated.

- Eligibility has not kept up with change in remote Australia, and nearly half of ZTO claimants live in large coastal regional centres.
- Inflation and growth in wages have substantially eroded the value of the ZTO. The economic and employment impacts of the concession are likely to be small, and there is no evidence to suggest that the ZTO currently affects where people choose to live and work.

DRAFT FINDING 5.1

There is no compelling justification for a zone tax offset in contemporary Australia.

Higher living costs or other aspects of life in remote areas do not warrant compensation from other taxpayers. Australians face a range of advantages and disadvantages in where they live, and will typically locate in the area they value most highly.

Communities likewise grow or shrink based on their advantages and disadvantages. Attempts by governments to artificially create an advantage for a remote community, or attract people to live in high cost areas through tax concessions, typically result in net losses to the broader Australian community.

DRAFT RECOMMENDATION 5.1 **ABOLISH ZONE AND OVERSEAS FORCES TAX OFFSETS**

The Australian Government should abolish the zone tax offset and the overseas forces tax offset.

DRAFT FINDING 5.2

There is no case for the Government to provide company tax offsets specifically to businesses in remote areas. Governments should focus on creating successful business environments regardless of their location.

The remote area allowance

DRAFT FINDING 6.1

Notable characteristics of the profile of remote area allowance recipients include that:

- most reside in *very remote* and *remote* areas of Australia (as defined by the Australian Bureau of Statistics)
- the majority are located in the Northern Territory, with one-in-five Northern Territorians over the age of 15 years in receipt of the payment
- half are located within areas of the highest socio-economic disadvantage
- almost 65 per cent of recipients are Indigenous Australians
- just over half have been in receipt of an income support payment for over five years.

DRAFT FINDING 6.2

There is a rationale for a remote area allowance to address cost of living differences affecting income support recipients in remote Australia.

DRAFT RECOMMENDATION 6.1 **ADJUST RAA BOUNDARIES**

The Australian Government should revise section 14 of the *Social Security Act 1991* (Cth) to align the remote area allowance geographical boundaries with the Australian Bureau of Statistics remoteness classification for *very remote* and *remote* areas.

DRAFT RECOMMENDATION 6.2 **REVIEW RAA PAYMENT RATES PERIODICALLY**

The Australian Government should revise payment rates for the remote area allowance (RAA) following the completion of this study.

Thereafter, the Department of Social Services should review the RAA periodically. These reviews should:

- revise RAA payment rates, taking into account changes in living-cost differentials between remote and non-remote areas
- report on RAA annual outlays and recipient numbers
- consider any issues associated with administering the RAA.

The reviews should be made public.

Fringe Benefits Tax remote area concessions

DRAFT FINDING 7.1

The use and economic effects of fringe benefits tax (FBT) remote area concessions vary.

- The exemption for employer-provided housing (used as a usual place of residence) can provide significant value at the employee level, particularly for higher-income employees, and could cost as much as \$430 million per year in forgone FBT revenue nationally. Usage is concentrated in certain areas — such as the Pilbara in Western Australia, and the Central Highlands and Bowen Basin in Queensland — and in industries such as mining, agriculture, and public services (including hospitals, police, and local government).
- The partial concessions on employee-sourced housing are narrowly used. The 50 per cent concession is much less generous than the full exemption on employer-provided housing, and the compliance burdens are higher.
- Use of other FBT remote area concessions (on residential fuel, meals for primary production employees and holiday transport) is minimal, in part because they provide limited tax savings and are overly complex with high compliance costs.
- FBT concessions for fly-in fly-out workers, while widely used, are likely to have only a minor influence on decisions to maintain a fly-in fly-out workforce.

DRAFT FINDING 7.2

Fringe benefits tax remote area concessions help to address inequities inherent in the FBT regime, but they are not fit for purpose. The current concessions are overly generous and complex, thereby creating other inequities.

DRAFT RECOMMENDATION 8.1 **TIGHTEN TAX TREATMENT OF EMPLOYER-PROVIDED HOUSING**

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to change the tax treatment of employer-provided housing. Specifically, it should:

- revert the exemption for employer-provided housing (section 58ZC) to a 50 per cent concession (as it was prior to 2000)
- remove the provision that enables employers to claim the concession because it is 'customary' to provide housing (section 58ZC(2)(d)(iii))
- remove the provision that extends the concession to additional areas for 'certain regional employers' (section 140(1A)).

DRAFT RECOMMENDATION 8.2 REMOVE CONCESSION FOR EMPLOYEE-SOURCED HOUSING

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to remove the 50 per cent concession on employee-sourced housing (section 60).

DRAFT RECOMMENDATION 8.3 TIGHTEN TAX TREATMENT OF OTHER GOODS AND SERVICES

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to change the tax treatment of residential fuel, meals for primary production employees, and holiday transport provided by employers in remote areas. Specifically, it should:

- limit access to the residential fuel concession for use in conjunction with employer-provided housing (section 59(1)) to instances where there is an operational requirement for the employer to provide residential fuel
- remove the residential fuel concession for use in conjunction with employee-sourced housing (section 59(2) and (3))
- limit access to the exemption that currently applies to meals for primary production employees (section 58ZD) to instances where there is an operational requirement for the employer to provide these meals
- remove the definition limiting the exemption to meals 'ready for consumption', as it leads to ambiguity and difficulty in implementation
- remove the holiday transport concession (section 60A and section 61).

INFORMATION REQUEST 2

The Commission invites feedback on its estimates of the utilisation of the FBT concessions. Are the Commission's assumptions plausible? If not, what alternative assumptions should apply? Are there other data that could assist in gauging the use of FBT concessions?

INFORMATION REQUEST 3

Should the revised remote area concessions be considered 'reportable' or 'excluded' benefits? Are there additional compliance burdens from allocating these benefits to individual employees that justify excluding them?

Are there any other factors that should be considered in implementing these changes?

INFORMATION REQUEST 4

The Commission invites further information on the compliance burdens that could arise from this change in the FBT treatment of employer-provided housing, and on what could be done to reduce these burdens while addressing equity concerns.

INFORMATION REQUEST 5

How often should the FBT remote area boundaries be updated?

Should the FBT remote area boundaries be decoupled from the ZTO boundaries? If so, how?

Can the other eligibility rules for remote area concessions be improved sufficiently to make geographical boundaries redundant?

INFORMATION REQUEST 6

What impacts would the proposed changes to FBT remote area concessions (particularly for housing) have on the provision of key public services, such as health services, in remote areas?

1 About the study

Key points

- The Australian Government has tasked the Productivity Commission with reviewing three longstanding tax concessions and payments for residents and businesses in remote and certain regional areas of Australia. The study examines the operation, effects, relevance and appropriateness of the measures, and whether and in what form they should continue.
- The Commission has engaged with regional and remote communities across Australia, and will continue to consult widely following release of this draft report.
- The Commission has drawn on established principles of taxation and public policy analysis to appraise the three tax concessions and payments, while taking account of differences in their design, rationales, effects and intended beneficiaries.
- There have been scant data published on the measures and little previous analysis of their effects. This study includes several empirical exercises to shed new light on them, with further analysis planned to help close remaining data and information gaps for the final report.
- The constitutional validity of the remote area tax concessions has long been questioned. The Commission has considered the risk that the tax concessions may not be constitutional in evaluating the merits of different reform options.

In November 2018, the Australian Government announced this Productivity Commission study (which commenced in February 2019) of the zone tax offset (ZTO), the remote area allowance (RAA) and the remote area concessions for payments of fringe benefits tax (FBT). These longstanding Australian Government tax concessions and payments assist people and businesses located in remote and certain regional areas.

This introductory chapter covers:

- the evolution of the three measures (section 1.1)
- the impetus for and scope of this study (sections 1.2 and 1.3)
- the Commission's approach to the matters under reference (section 1.4).

1.1 Evolution of the remote area tax concessions and payments

World War II origins

Zone tax concessions commenced at the end of World War II. At the time, people and businesses in remote Australia faced some particular challenges. For example: most highways and truck routes were unsealed; air travel was limited, expensive and relatively dangerous; people relied on the post rather than email; and there was no or limited access to government services or modern comforts such as television and air conditioning. In addition, the high marginal tax rates of the time meant that a significant portion of any remote allowances offered by employers seeking to fill labour shortages in isolated areas were captured by income tax.

In recognition of this and the relatively high living costs, isolation and uncongenial climate in remote areas, the Australian Government introduced income tax deductions for inhabitants of designated zones (Chifley 1945a). Many also considered that it was in Australia's economic and strategic interests to encourage people to settle in remote areas.

Although the remote area tax deductions were contested by some at the time, they were increased significantly in their early years. The deduction for residents of Zone A reached 270 pounds annually (for individuals) in 1958-59, compared to average annual wages of about 1000 pounds that year (ABS 1992; Cox et al. 1981). For someone on an average salary, this reduced the tax paid by about 5.3 per cent of after-tax income (ABS 1992); (ATO 2018a)).

Subsequent additions and amendments

Governments added to the arrangements over the following decades. Notable changes were:

- in 1958, inclusion of a loading for taxpayers with dependent children
- in 1975, conversion of the (pre-tax) deduction into a (post-tax) rebate — the ZTO
- in 1982, creation of 'special areas' with higher rebates for especially remote areas (in essence, places greater than 250 kilometres from a town of more than 2500 people, as measured in the 1981 census)
- in 1984, introduction of the RAA, which was a corresponding payment for welfare recipients to extend the benefit of the ZTO to others residing in remote Australia
- in 1986, introduction of remote area concessions to lessen the impact of the then-new FBT on business operations in remote locations
- in 1997 (for primary producers) and 2000 (for other employers), conversion from a 50 per cent FBT concession to a full exemption for employer-provided housing in remote areas.

By 2000, the three sets of arrangements under reference were in place, largely as they are today. Box 1.1 provides more details on them. Apart from a 2015 amendment to the ZTO to exclude fly-in fly-out workers who reside outside the zones, there have been no substantive changes to the arrangements in recent times. Moreover, the ZTO's nominal value was last increased in 1993. The base rebate for a single person has thus remained at \$338 a year in ordinary Zone A, \$57 in ordinary Zone B and \$1173 in the special areas for 25 years.

1.2 Impetus for this study

There are concerns that the ZTO and RAA have failed to keep pace with the demographic, cost of living and infrastructure changes in Australia. Key among the concerns are that:

- the zone boundaries for ZTO and RAA recipients still largely reflect the original design in 1945, while the special areas within those zones are based on 1981 Census data, and so are unlikely to reflect the level of remoteness in contemporary Australia
- neither the ZTO nor the RAA payments have kept pace with inflation (or income growth), thereby eroding their real values. Indeed, while the (pre-tax) Zone A tax deduction reduced tax paid by more than 5 per cent of after-tax income for someone on an average salary in 1958-59, the (post-tax) Zone A rebate is worth less than 1 per cent of average after-tax income today (chapter 4).

Some contend that the measures are now ineffective and argue that their value should be restored. For example, former Senator the Hon. Ian McDonald has noted:

The proper revision and indexation of the Zone Tax Rebate, or some other form of incentive in Northern and Remote Australia, would encourage many Australians to move to the remote parts of our country to where we know the wealth is in agriculture and mining is waiting to be extracted, where what we need most is the people there to do it. (Macdonald 2018)

Only one dedicated review of the ZTO has been undertaken during its life — the 1981 Cox Review (chapter 4) — although other inquiries into the tax system have commented on the arrangements. Notably, the ZTO (along with other offsets) was covered by the Henry Tax Review (Henry 2009b). It recommended that the ZTO be reviewed, with a suggestion that this could lead to its removal or replacement. However, that recommendation was not acted upon (until now).

In contrast to the ZTO, the FBT concessions and RAA have not been *publicly* reviewed since their implementation, although they were examined in the Industry Commission's inquiry into *Impediments to Regional Industry Adjustment* (IC 1993), and administrative aspects of the RAA were covered in a 1989 Department of Social Security discussion paper (DSS 1989).

Against this background, the Australian Government has asked the Productivity Commission to undertake an independent, public evaluation of all three measures.

Box 1.1 **What are the remote area tax concessions and payments?**

The zone tax offset

The ZTO is an income tax rebate for individuals who reside in one of two zones: the more northerly Zone A, a southern Zone B and 'special areas' — particularly remote parts of Zones A and B, which attract the highest rebate (figure 4.1 in chapter 4). Together, the zones cover around three-quarters of Australia's landmass. The base payment rates and the loadings are as follows.

- Special areas: \$1173 a year + 50% of applicable dependant rebates
- Ordinary Zone A: \$338 a year + 50% of applicable dependant rebates.
- Ordinary Zone B: \$57 a year + 20% of applicable dependant rebates.

The remote area allowance

The RAA is a supplementary income support payment. To qualify for it, a person must be receiving an eligible income support payment (such as the age pension or Newstart allowance), be physically present in an eligible area, and have their usual place of residence in an eligible area.

The eligible areas for RAA payments include all the ZTO zones, with the exception of ordinary Zone B (figure 6.1 in chapter 6). RAA is paid at a flat rate across all eligible areas and across all income groups. Current fortnightly rates of payment for the RAA are \$18.20 for a single person, \$15.60 (each) for a couple, and \$7.30 for each dependent child. Rates are not indexed.

- For a single individual, this translates to a payment of about \$470 a year.
- For a couple with two children, this translates to a payment of \$1190 a year.

The Fringe Benefits Tax remote area concessions

In 1986, FBT was introduced as an integrity measure to prevent the use of in-kind payments (that is, remuneration other than wages and salary) to an employee to reduce income tax obligations. Unlike income tax, FBT is always levied at the top marginal rate of 47 per cent. However, a number of concessions to the full FBT rate were made, including for those employees residing in 'remote' areas. The areas eligible for the FBT concessions are defined by distance from 'eligible urban areas' of various sizes, and population thresholds are higher if the 'eligible urban areas' are within the ZTO zones (chapter 7). These criteria have led to a broader definition of 'remote' than for the ZTO and RAA, covering virtually all of Australia's landmass (figure 7.2 in chapter 7).

FBT exemptions in remote areas include:

- employer-provided housing, where the house is either owned or leased by the employer
- the costs of fly-in fly-out arrangements
- meal provision, although only for those employees in primary production.

Partial concessions (usually 50 per cent reductions in the taxable value) may be available in remote areas on:

- financial assistance with employee-sourced housing, including reimbursement of rent and mortgage interest, and with other employee home ownership arrangements
- residential fuel (for use in properties where a remote housing concession applies)
- holiday transport costs.

1.3 The study's scope

The terms of reference ask the Commission to assess 'the appropriate ongoing form and function' of the ZTO, the RAA and the FBT remote area concessions. In doing so, the Commission is to examine or consider:

- the operation of the measures, including the levels of assistance provided, indexation and the boundaries of eligible areas and prescribed zones
- the economic and employment impacts of the measures, including the effect of applying indexation, in regional Australia
- whether the measures are delivering on their policy objectives and whether those objectives remain appropriate in a contemporary Australia
- if businesses in remote areas should be provided with similar support
- if there are alternative mechanisms to better provide this support to Australians residing in specified geographic areas.

What measures are being looked at?

The broad features of the three measures under reference were outlined in box 1.1, and are explained in detail in chapters 4, 6 and 7. Of the three, the FBT remote area concessions are by far the most significant in monetary terms. The Commission estimates that the annual budgetary cost of the ZTO is about \$150 million and the RAA about \$44 million, whereas the FBT remote area concessions potentially have a direct budgetary cost in excess of \$500 million.

The Commission has also looked at other government measures that are designed to provide support for remote Australia. As noted in chapter 3, the Australian, State and Territory governments collectively direct significant resources to such measures. In this context, the ZTO, RAA and the FBT concessions are a small subset of the policies that support individuals, businesses and communities in regional and remote areas. While this study does not assess the specific merits of these other measures and policies, the Commission does have regard to them in understanding the context for the remote area tax concessions and payments and potential alternatives to them.

What areas are covered, and how determinative is 'remoteness'?

The terms of reference ask the Commission to assess 'the zone tax offset and related remote area tax concessions and payments' (emphasis added).

Although cast as remote area policies, each of the three measures encompasses large and different parts of Australia, not all of which would widely be regarded as remote. As mentioned in box 1.1, the ZTO covers Zones A and B and the special areas contained within

those zones, whereas the RAA covers the same areas but with the exception of ordinary Zone B. The reach of the FBT remote area concessions is much larger, capturing large areas of states such as Victoria, even though no part of Victoria qualifies for the ZTO or RAA. Consequently, the definition of ‘remote’ has been stretched much broader in this case.

The boundaries of these areas date back to 1945 in the case of Zone A and Zone B, and the 1980s for the special areas and the area for the FBT concessions. The terms of reference note that ‘[t]here have been concerns that the design of these mechanisms has not evolved to adequately reflect varying degrees of demographic, infrastructure and cost-of-living change occurring in Australia’. One issue with which the Commission has had to grapple is whether the boundaries for the three measures should be altered to reflect what is considered remote today.

Remoteness usually refers to *geographic* distance from economic and social activity. The opposite of a remote area is an accessible one; where accessibility usually refers to the extent to which people can access the services they need (Reoch and Thomson 2018).

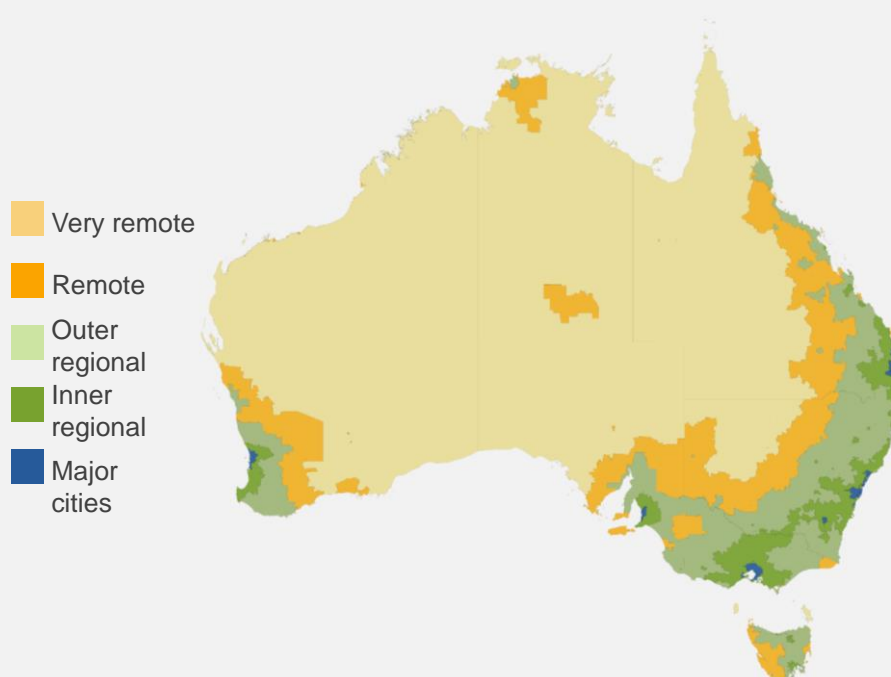
Several measures of remoteness in Australia have been developed, drawing on these concepts (box 1.2). There are differences in their methodologies and granularity, meaning that a locality may be ranked a different level of remoteness under one index compared with another. Which index is preferred will depend on the purpose for which it is being used.

For the purposes of this study, the Commission has relied mainly on the remoteness areas published by the ABS. However, in formulating its draft recommendations, the Commission has not automatically sought to restrict the future scope of the measures under reference to areas that can be considered remote based on the ABS metric. In the case of the RAA, for example, the Commission has assessed that the ABS categorisation of remoteness *is* fit for purpose (chapter 6), whereas, given the very different purpose of the FBT concessions, it does not see a case to restrict their geographic scope in the same way (chapter 8).

Box 1.2 Australian remoteness classifications

The ABS/ARIA 'Remoteness Areas'

The Australian Bureau of Statistics (ABS) distinguishes five remoteness areas, ranging from '*major cities*' to '*very remote*'. (All references to the specific ABS remoteness areas in the text of this document are in italics.) The classification is based on the Accessibility/Remoteness Index of Australia (ARIA+), which uses the road distance between a point on the map and 'service centres' of different sizes that enable access to goods, services and social opportunities. The approach is widely used, including by State governments and the Commonwealth Grants Commission, and is regularly updated by an independent and respected agency using a transparent and well understood methodology. It provides a proxy measure that takes accessibility into account, although it does not consider matters that can influence 'effective' accessibility, such as the socio-economic status and mobility of populations, or road conditions and travel times. The following figure depicts the ABS remoteness areas based on the 2016 census.



Other indexes

- The Modified Monash Model augments the ABS model with a more granular treatment of some of its categories of remoteness. It was developed to better target incentive payments for medical staff to rural areas, and as such its focus is on allocating and providing health services to address disparities in service delivery across Australia.
- Some governments have what are effectively remoteness indexes which they use to determine district allowances for their employees — paid in recognition of the hardships of living and working in remote or inhospitable areas. Western Australia, for example, calculates its allowances using three components: a regional cost of living price index; an isolation payment (also based on the ARIA for specific locations); and a climate payment (based on the Bureau of Meteorology Relative Strain Index value for specific locations) (WADC 2010).

1.4 The Commission's approach

In essence, the terms of reference require the Commission to examine the effects and determine the policy merits of the three remote area measures, and to make recommendations for such assistance into the future. They also specify that the Commission consult appropriately (including with regional communities), issue a draft report, and provide its final report to Government within 12 months of the study's February 2019 commencement date. In announcing the study, the Treasurer further indicated that the Commission should consult broadly, including by directly visiting remote communities (Frydenberg 2018).

Community input

The Commission has sought views and information for the study via a range of avenues.

- Upon commencement, the Commission advertised the study and held initial discussions with government agencies, peak industry bodies and other interested parties.
- It released an issues paper on 12 March 2019, which provided some initial research on the measures, highlighted key questions and invited public submissions. The Commission also welcomed brief comments on the study via a portal on its website.
- 98 submissions and 12 brief comments were received from individuals, businesses, industry groups, academics, Indigenous bodies and Australian, State, Territory and local government bodies (appendix A).
- The Commission held further meetings with government agencies, academics and other bodies after the release of the issues paper.
- In April and May 2019, Commissioners and staff travelled to a range of remote locations around the country for site visits, meetings and community forums. Places visited are shown in figure 1.1.
- In July 2019, a short questionnaire on the use of FBT remote area concessions was distributed to businesses in the mining and agriculture sectors, and to some local governments.

The Commission thanks all those people who have contributed their views, insights and information to the study to date.

This draft report has been released to provide an opportunity for further input. It contains the Commission's preliminary findings and recommendations. It also contains several specific requests for further information to help close data and information gaps and bolster the analysis in the final report.

Figure 1.1 **Places visited in the course of this study^a**



^a The settlements shown on the map are those places where the Commission held consultative visits.

Approach to assessment

The ZTO, RAA and FBT remote area concessions are small and discrete fiscal measures that sit within an existing, and much larger, tax and transfer system. This has enabled the Commission to appraise the measures drawing on established principles of taxation and public policy analysis (box 1.3). In doing so, the Commission has been cognisant of the particularities of the three measures and differences between them, their rationales, their effects and their intended beneficiaries.

A first step is understanding the environment in which the measures operate. Chapter 2 examines remote Australia, with a focus on those facets of life and doing business that are most often cited as justifying government assistance. These include the effects of distance, climate, and business and living costs. The chapter also looks at how these facets have changed since the mid-1940s, when remote tax concessions were first provided. Chapter 3 then examines the range of other measures that governments at different levels also provide to support individuals, businesses and communities and to facilitate development in regional and remote Australia.

Box 1.3 **Tax and transfer reform principles**

The terms of reference raise fundamental questions about remote area tax concessions and payments (such as the circumstances under which special assistance for living or operating in remote areas is warranted) as well as detailed questions about tax design (such as how to tailor eligibility rules and concession rates to meet policy objectives).

Design principles for the tax and transfer system

In assessing detailed tax design options, the Commission has drawn on a well-established literature on good-practice tax design. For example, three key design principles for the tax and transfer system, as outlined in the Henry Tax Review (2009b) and the Asprey Review (1975), are:

- **Equity:** the tax and transfer system should treat individuals with similar economic capacity in the same way, while those with greater capacity should bear a greater burden.
 - For example, a tax concession intended to compensate for a particular economic disadvantage should be designed so that only taxpayers affected by the disadvantage can benefit from it.
- **Efficiency:** the tax and transfer system should generally raise and redistribute revenue at the least cost to economic efficiency and with minimal administration and compliance costs.
 - Taxes and transfers affect the choices individuals and businesses make by altering their incentives. The tax and transfer system should not unduly get in the way of individuals and businesses acting in their own interests.
- **Simplicity:** the tax and transfer system should be simple to understand and to comply with.
 - If individuals and businesses understand the system, they are more likely to act in their best interests and respond to intended policy signals. A simpler system will generally also involve lower administrative and compliance costs.

Good policy design

To address the more fundamental questions about the ongoing case for, and form of, remote area assistance, the Commission has drawn on broader principles of good policy design (Banks 2009; COAG 2007; PC 2001; PM&C 2014). In particular, policy interventions should:

- have a sound rationale
- bring a net benefit to society
- be better than any alternative
- be proportional to the objective that they are designed to achieve
- be evaluated over time to ensure that they remain relevant and cost-effective
- be transparent, clear and concise
- be consistent with other laws, agreements and international obligations.

The Commission then examines the three measures under reference in the following chapters. For each measure, the report:

- describes the measure and presents information and estimates on its value, who benefits, and how this has changed over time
- examines the effectiveness of the measure in achieving its stated objective

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- appraises the rationales put forward for the measure and/or whether it has an ongoing role in contemporary Australia
 - where it does, explores reform options to improve the measure.

In assessing the measures and options for reform, the Commission has taken a community-wide perspective as required by the *Productivity Commission Act 1998* (Cth). Thus, while considering the economic and employment impacts of the measures in remote Australia, the Commission has also had regard to the impacts on other parts of the community such as forgone tax revenue, increased government outlays, or displaced economic activity.

The empirical challenge

A challenge for this study has been the dearth of relevant and readily available data and previous analysis of the measures. For example:

- a central issue for this study is understanding the cost of living in remote areas. The existing sources of cost of living data (such as the ABS) mainly cover metropolitan and regional areas. Coverage of remote areas is patchy at best
- the ATO does not collect data on FBT exemptions (as there is no requirement for businesses to report their use), and the data it collects on the partial concessions are highly aggregated. (Remote area concessions and other types of FBT concessions are not separately reported.) In consequence, there is very little data available to estimate the utilisation and costs of the FBT concessions
- similarly, the ATO does not collect or report ZTO data separately
- there is a limited body of work analysing the arrangements for the Commission to build upon. Only one dedicated review of the ZTO has been undertaken during its life — the 1981 Cox review — and there has been only one empirical study of its effects (Kettlewell & Yerokhin (2019)). The latter study only focused on the early decades of the ZTO. There have been no public reviews of the FBT remote area concessions and the RAA.

Even where data can be assembled, accurately gauging the effects of the measures is not straightforward. The value of the ZTO and RAA is now quite small and their beneficiaries are dispersed over wide areas, making it difficult to disentangle their effects from other factors and to assess their local impacts.

In view of these challenges, the Commission has conducted several empirical exercises to shed light on the operation of the remote area tax concessions and payments. These include:

- using multiple data sources — including State-based price surveys, the ABS and the ACCC, Defence Housing Australia, and the consumer advocacy body CHOICE — to build a picture of how cost of living varies across the country
- developing a correspondence methodology that attributes aggregated data on the ZTO and RAA (such as the number of people who receive the offset or payment, and its value) to ABS remoteness classifications and areas of relative disadvantage

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- using unpublished de-identified data provided by the Department of Social Security and the ATO to create a demographic snapshot of the people who receive the ZTO or RAA, broken down by characteristics such as their income, age and Indigenous status
 - using the results of the Commission’s questionnaire to mining and agricultural businesses and local governments (mentioned above) to better understand the utilisation of the FBT remote area concessions
 - using cameos and case studies to help illustrate the effects of the measures, or the impacts of proposed reforms.

This study has also drawn on previous Productivity Commission research, such as the 2014 *Geographic Labour Mobility* study, the 2016 *Overcoming Indigenous Disadvantage* report and the 2017 *Transitioning Regional Economies* study. Other recent government reports on which the study has drawn include:

- the *Our North, Our Future White Paper on Developing Northern Australia* (Australian Government 2015)
- the Australian Senate Rural and Regional Affairs and Transport References Committee report on air services for rural, regional and remote communities (RRATRC 2019)
- the most recent comprehensive review of the tax system — *Australia’s Future Tax System* (Henry 2009a).

Constitutional issues

Since the establishment of remote area tax deductions in 1945, there has been ongoing debate about whether providing assistance through the tax system based on geographic delineations of remoteness complies with the Constitution of Australia. Section 51(ii) of the Constitution confers on the Commonwealth the power to make laws with respect to ‘Taxation; but so as not to discriminate between States or parts of States’. Section 99 further states ‘The Commonwealth shall not, by any law or regulation of ... revenue, give preference to one State or any part thereof over another State or any part thereof’.

After seeking the advice of the Attorney-General’s Department on the constitutional validity of zone tax offset, as described in section 79A of the *Income Tax Assessment Act 1936* (Cth), the Cox Review (1981, p. 5) noted that:

... there was doubt about the issue and that [the reviewers] could have no assurance that the provision was constitutionally sound, notwithstanding that the arrangements had been in existence since 1945.

The arrangements have never been directly tested in the High Court. Like the Cox Review, the Commission has sought and received legal advice and has considered the associated constitutional risk when examining different reform options.

2 Life in remote Australia

Key points

- Remote Australia is vast and diverse, encompassing outback stations, small country towns, inland and coastal Indigenous communities, mining towns and distant islands.
- When income tax concessions were introduced for residents of isolated areas in 1945, life in remote Australia was often arduous, particularly where the effects of isolation were compounded by high living costs or harsh climates.
- Over time, economic, social and technological change has altered where and how Australians live. This has similarly altered the nature of life in remote Australia.
 - Population growth has centred on capital cities, regional centres and coastal areas. Some previously isolated areas have developed into large, connected economic centres in their own right and in contemporary Australia are no longer 'remote'.
 - Improved communications and transport, more affordable air-conditioning and other advances have helped to reduce the hardships of life in many remote areas.
 - But some places have not kept pace, and in some respects have become more remote in relative terms. In some areas, population decline has led to fewer local services and community activities.
- Today, just 2 per cent of Australians reside in *remote* or *very remote areas* (as defined by the ABS). However, around 20 per cent of Indigenous Australians live in these areas, and account for around a quarter of the areas' population. The non-Indigenous population is predominantly of working age, with fewer school-aged residents and retirees than Australia as a whole.
- Living and doing business in remote Australia still poses difficulties. Extreme climates and long distances can make it hard to attain a comparable material standard of living to a city resident, and expectations of the range of services that should be available have increased substantially.
 - The availability and cost of accessing key services, such as education and healthcare, is a major concern for many Australians living in remote areas. Poor access to education, for example, can push many younger residents towards cities in pursuit of such opportunities.
 - There is some evidence to suggest that cost of living increases with remoteness.
 - Some costs of operating a business in a remote area (including attracting and retaining skilled labour) are higher than in other areas.
- In spite of these difficulties, many people choose to live in remote places that they are happy to call home, and have a strong personal or cultural connection to a place and the way of life it offers. Others are attracted by the economic opportunities in remote Australia, including (in many cases) generous remuneration packages where employers compensate people to accept less-than-favourable circumstances.

Australia, the driest inhabited continent, is one of the least densely populated countries in the world. Large swathes of the country are ‘remote’: sparsely populated and distant from major cities.

Remote Australia encompasses outback stations, small country towns, outback and coastal Indigenous communities, mining towns, offshore islands — and the vast and barely populated spaces between. Remote areas vary in their geology, climate, demography and economic prospects. Many parts of remote Australia offer their residents a unique lifestyle, or a different set of opportunities to other parts of Australia. But also common to many remote places is that life or doing business can be challenging and demand resilience, particularly where the effects of isolation are compounded by high living costs or harsh climates.

The area of Australia that can be considered genuinely remote has changed over time. Some places that were undeniably remote in 1945, when tax concessions for ‘isolated areas’ were first introduced, have since become more developed and connected to the rest of the country (and the world).

For people and businesses in areas that remain remote, technological and economic developments (as well as government measures) have lessened many of the difficulties stemming from distance, isolation, and even climate. At the same time, these developments have disproportionately benefited city dwellers and have not always been shared with residents of remote Australia. Some remote places are facing population or economic decline and loss of services, and some of the hardships of remote living remain.

Understanding these changes, as well as the nature of life in remote Australia, is important for assessing the remote area tax concessions and payments. Accordingly, this chapter traces how remote Australia has evolved since 1945, and some key drivers of change (section 2.1). It then describes the characteristics of remote Australia today (section 2.2) and examines the challenges (section 2.3) and benefits (section 2.4) of life in remote areas compared with life in the rest of the country. The chapter draws on official data, government reports, parliamentary speeches, historical records, submissions, and insights gained by the Commission on its visits to different parts of Australia during this study (chapter 1).

2.1 The changing face of remote Australia

Over time, the notion of ‘remote Australia’ has evolved as Australia has developed overall. The fortunes of this part of the country are linked to wider changes in regional, rural and urban Australia; these key concepts are defined in box 2.1.

Box 2.1 Defining remoteness

Different concepts have been used to delineate parts of Australia. ‘Remoteness’ usually refers to *geographic* distance from economic and social activity. The opposite of a remote area is an accessible one; although accessibility is not well-defined at times, it usually refers to the ease with which people can access the services they need. The Australian Bureau of Statistics remoteness areas (chapter 1; box 1.2) are defined by an index of road distances to service centres: towns of particular size, assumed to provide access to a particular level of services.

This definition of remoteness means that areas can become more or less remote over time. Distance can become more or less ‘tyrannical’ because of the march of technology or the development of infrastructure, and as particular centres of economic activity expand or decline.

Other terms have been used to define different parts of Australia. These include:

- ‘urban’ and ‘rural’, which contrast areas within a city or metropolitan area (urban) against the rest of Australia (rural)
- ‘regional’, which can refer to any place outside of the six major cities, including remote Australia as well as secondary cities and towns.

These concepts are not interchangeable, nor are they mutually exclusive. A place can be both urban and remote (such as Alice Springs in the Northern Territory), or rural and accessible (such as Gundaroo near the border of the ACT).

All references to remote Australia in this chapter refer to the combined area covered by the ABS categories of *remote Australia* and *very remote Australia*, unless otherwise specified.

Source: ABS (2001); Reoch & Thomson (2018).

Remoteness posed significant challenges in 1945

The ‘isolated areas’ (or zones) originally eligible for an income tax concession were defined on the basis of ‘latitude, rainfall, distance from centres of population, density of population, predominant industries, rail and road service, and cost of food and groceries’ (Chifley 1945b, p. 924). The Government later confirmed that there was ‘no formula or set of conditions according to which zones are determined’ (Fadden 1956, p. 1822).

The zone boundaries largely reflected where Australians lived at the time — or, more accurately, where they did not live.¹ In broad strokes, these areas included:

- the Northern Territory
- much of Western Australia beyond the Perth region
- north and west South Australia
- far west New South Wales

¹ Figure 4.1 (chapter 4) shows the current zone boundaries. These differ slightly from the original boundaries: the border between Zones A and B was moved in 1956 and ‘special areas’ within the zones were added in 1982.

-
- most of inland and north Queensland
 - western Tasmania
 - certain islands (including Norfolk Island).

In 1945, Queensland, Western Australia and the Northern Territory were relatively unpopulated — less than a third of the 7.6 million people in Australia lived outside New South Wales and Victoria in 1947 (ABS 2019b). The population of Cairns was 16 600 people, and Darwin had just 2500 residents.

At the time, agriculture was the dominant rural industry. About 435 000 people in rural Australia were employed in the agriculture, forestry and fishing industry in 1947. The sector contributed almost half of all rural employment and about 16 per cent of national employment.

Australians residing in those areas faced a number of disadvantages. Indeed, in contesting the creation of isolated area tax concessions, the federal Opposition made reference to the poor living conditions in the Northern Territory and other isolated areas.

More good would be achieved by providing the amenities necessary, such as telephone and mail services where they are now lacking. In some areas, the settlers cannot even get an effective broadcasting service. Moreover, because of the shortage of tyres and petrol, settlers in remote areas are prisoners on their own properties. There may be a weekly mail service, but if the settler avails himself of the mail car to travel to town, he has to wait there a week before he can return home. (Adermann 1945, pp. 1399–1400)

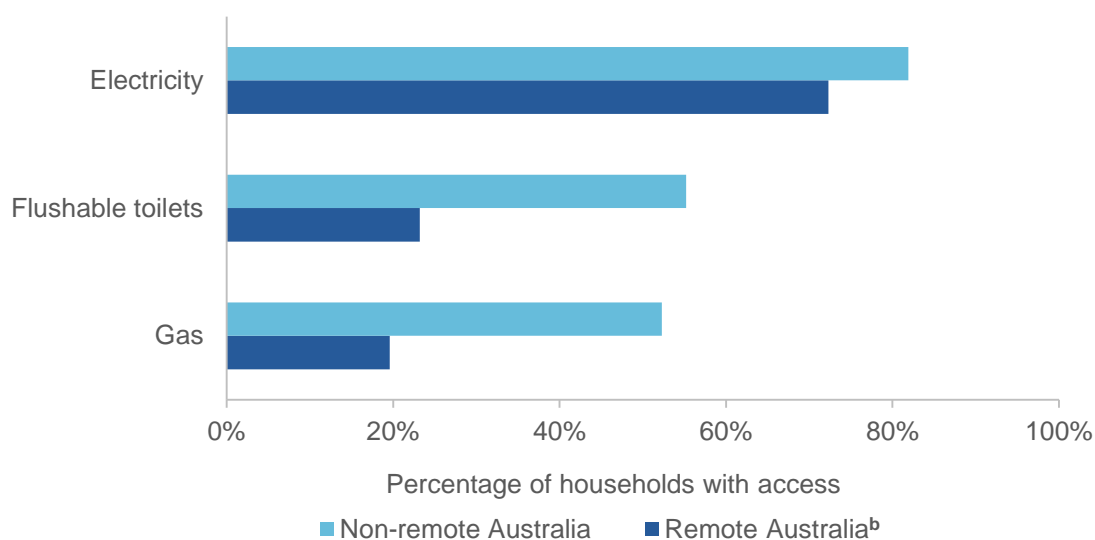
Isolation was real for many remote Australians, and there were fewer tools to conquer long distances. In 1943–44, there was (on average) one car for every nine people in Australia — and just 174 privately-owned cars in the whole of the Northern Territory (ABS 1947). Roads in remote areas were also less developed in those days. For example, by 1950, only 5 per cent of the roads in Western Australia were sealed — and these were almost exclusively in major urban areas (BITRE 1984). Several airlines operated in remote Australia, including Qantas (which made its first scheduled passenger flight, from Charleville to Cloncurry, during 1922). But air travel was expensive and relatively dangerous; some high-profile accidents on domestic routes, including a crash in Canberra which caused the deaths of three Federal ministers in 1940, had ‘dinted the public and official confidence in air travel’ (Blainey 2001, p. 352).

In general, fewer modern comforts were available to those who lived outside of cities (figure 2.1). Impaired access to electricity and running water meant poor hygiene and limited refrigeration. These disadvantages were not limited to the areas eligible for the tax concession; some held that residents of rural Victoria, particularly the Mallee in the west of the State, faced similar conditions (White 1945a, p. 1396).

Communication with the cities largely relied on the post, which took many days by rail. However, telegram services and shortwave radio had become widely available by this time, although television had not yet been introduced.

Figure 2.1 **Relative access to modern amenities in 1947**

Percentage of households with access to utilities^a



^a These figures are not comprehensive because the 1947 census excluded most Indigenous Australians.

^b 'Remote' here refers to an approximation of areas eligible for the original isolated area income tax deduction.

Source: ABS (*Census of the Commonwealth of Australia, 1947*, Cat. no. 2109.0).

Whereas the south-east of Australia is relatively temperate, the areas eligible for the income tax concession encompassed the tropical north of the country (with its humidity, high rainfall and intense tropical cyclones), the hot, arid interior, and the damp western region of Tasmania. There was a longstanding attitude that tropical conditions were unsuitable for 'British Australians', and with limited access to electricity, refrigeration, and air conditioning, people residing in these areas were seen to be at the mercy of the elements.

Indigenous Australians also lived in these areas, but they were not formally counted in the census at this time. In the Northern Territory, many lived on missions or Government reservations; others worked as station hands for pastoral businesses, often in abysmal conditions (Stevens 1974). In some very remote areas, small groups remained relatively unaffected by European settlement: the last so-called 'uncontacted tribe' was encountered in 1984 (Mahony 2014).

Remote Australia had changed significantly by the 1980s

Living conditions in Australia changed markedly over the following decades. By 1981, 85 per cent of the nearly 15 million Australians lived in cities (compared with fewer than 70 per cent of the 7.5 million Australians in 1947). (In fact, the early days of the remote area

tax concessions (1947 to 1954) saw the most rapid exodus of people from rural Australia to the cities (ABS 2019b).)

While rural Australia was still growing overall, it was growing more slowly than the capital cities. Many smaller towns were shrinking, and regional centres — mid-level cities, such as Cairns and Townsville — were starting to expand at the expense of their hinterland (BITRE 2014; Hugo 2002).

The status of Indigenous people in Australia changed dramatically during this time. There were social reforms in some areas, most notably through the 1967 referendum (Thomas 2017), and land rights were first recognised in law following the passage of the *Aboriginal Land Rights Act (Northern Territory) 1976* (Cth). In the 1971 census, Indigenous Australians were formally counted as part of the Australian population, and 56 per cent of those 106 000 Indigenous Australians resided in rural areas.

The structure of the rural economy had also changed. Technological advances, along with the liberalisation of the Australian economy, increased the productivity of Australian agriculture and so reduced the need for labour. Agricultural jobs declined as a share of employment in rural Australia; by 1981, 380 000 Australians were directly employed in the agriculture, forestry and fishing industry, representing only 6 per cent of employment nationally, a fall of 10 percentage points from 1947 to 1981 (ABS 1983).

Meanwhile, transport and communications had advanced significantly. Colour television had become available and there were now half as many cars as people (ABS 1981). Australian domestic aviation drastically improved its safety record during the 1970s, and more than 10 million passengers flew domestically in 1978-79 (ABS 1981; Blainey 2001).

In 1981, the zone allowance was subject to a public inquiry (Cox et al. 1981; chapter 4, box 4.1). The Cox Review was tasked with assessing whether the concession had a sound basis. In assessing this, the reviewers investigated how life had changed in remote areas between 1945 and 1981.

The review considered that Australians in remote areas were in many ways ‘less isolated’ by the 1980s, noting that:

What was isolated in 1945 would generally be regarded as far less so now in some respects. Since that time generally the provision of communication facilities to most places in the zones has improved. There are more and better air and rail services, mail deliveries, telephone services, radio and television stations. (Cox et al. 1981, p. 13)

The review also noted that uncongenial climate conditions could now be addressed by technology (such as air conditioners), although this came at a cost.

These findings did not sway the reviewers from concluding that remote areas remained at a disadvantage. Some conditions in remote areas were thought to have ‘deteriorated’ relative to cities since 1945 — particularly the cost of living (Cox et al. 1981, p. 14). Submissions to

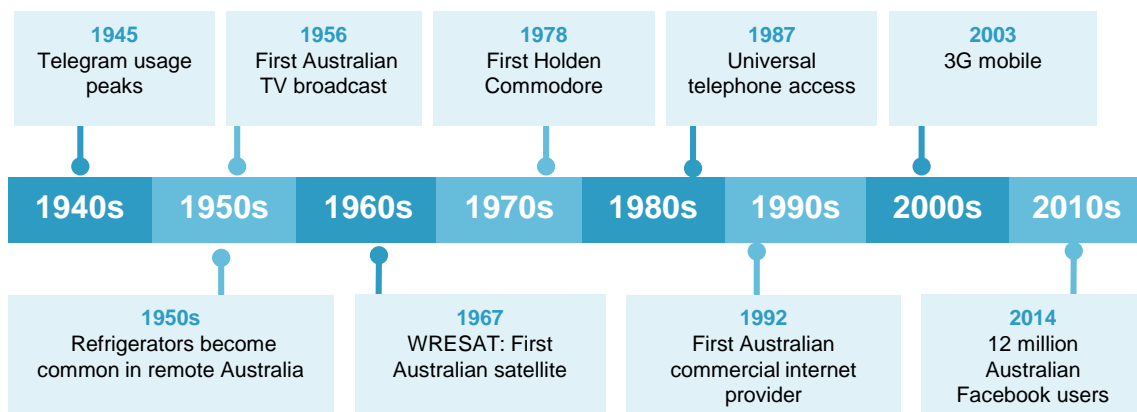
that review indicated that Governments had reduced the number of air, mail and train services to some remote areas, as declining populations had made some services less viable.

The Cox Review also highlighted increasing divergence in circumstances within the zones. It noted, for example, that conditions in Burketown and Mount Isa in Queensland were vastly different, even though each was eligible for the same payment rate.

Change in remote Australia has continued into the new millennium

In many cases, the trends apparent by the time of the Cox review have continued, with technological change and economic development bringing further improvements in material living standards (figure 2.2).

Figure 2.2 **The march of technology in Australia**
1945 to 2019



Sources: Moyal (1984); NBNco (2011); Ross (2014); Smith (2005).

Urbanisation, the process by which ever-greater proportions of Australians live within capital cities or large regional centres, has not abated. Cairns, already a major regional centre by the time of the Cox review, has more than doubled its population since 1981 (box 2.2). Along with Townsville (like Cairns, also on the Queensland coast) and Darwin (in the Northern Territory), it is home to more than 100 000 people. Both Cairns and Darwin have international airports.

Material living standards have also continued to rise throughout Australia over the past four decades. Technological advances and economic growth have spurred improvements in the availability, range, reliability, quality and affordability of many goods and services — including automobiles, refrigerators, air conditioners, home entertainment, telecommunications (including satellite television, GPS and high-speed internet), portable locator beacons for emergency services, and portable health diagnostic and therapeutic

devices. Many of these advances have helped to overcome the isolation of remote life, or to assist residents in coping with adverse climatic conditions.

Box 2.2 Cairns through the years

Cairns, on the north-east coast of Queensland, was first settled by Europeans in 1876 as a port in response to an inland gold rush. The agricultural industry (particularly sugar cane and fruit orchards) and forestry developed through the 1800s, and by Federation the population of Cairns was about 3500 people.

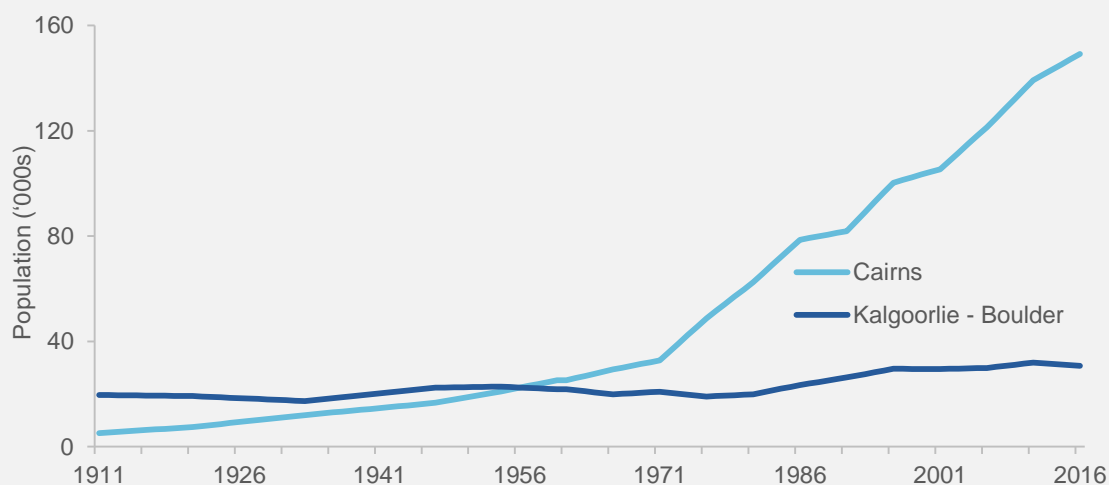
The town was connected to Brisbane by rail in 1924, and the first commercial passenger flights between Cairns and Brisbane commenced in 1930. By the 1940s, electricity, running water and radio had all arrived in Cairns.

From the 1950s, Cairns emerged further as a tourist destination (particularly over winter), largely because of its warmer climate and proximity to both tropical rainforests and the Great Barrier Reef. Air-conditioned direct passenger rail services to and from Brisbane commenced in 1953, and the Bruce Highway (an all-weather road linking Cairns and Brisbane) was completed in 1962. By 1981, the population had grown to 62 000.

Today, Cairns has grown to be the second largest city in northern Australia (after Townsville) with a population of around 150 000 people. Tourism — requiring accommodation, cafes and restaurants, other types of retail, and various cultural and recreational services — is a key employer. The Cairns Airport was opened to international passengers in 1984, and is now the seventh-largest in Australia. Nearly 5 million people now pass through the airport each year: almost ten times as many as in 1985-86.

The rapid expansion of Cairns as a coastal tourism hub stands in stark contrast to the fortunes of other places deemed isolated in 1945, such as Kalgoorlie-Boulder (below). At the commencement of the remote tax arrangements in 1945, both towns were included in Zone B and residents were made eligible for the same tax deduction. This remains the case today.

Populations of Cairns (QLD) and Kalgoorlie-Boulder (WA)



Sources: ABS (Australian Historical Population Statistics 2019, cat. no. 3105.0.65.001; 2017a); BITRE *Airport traffic data — June 2019*; Heritage Alliance (2011).

Of course, the tide of economic progress does not lift all boats equally. Some areas have not benefited from economic development as much as others over this period, and remote areas remain home to some of the most disadvantaged people in Australia. Not all the difficulties of living in remote Australia have been conquered; as one former resident of remote Western Australia put it:

Things may have improved from the days of telegraph lines and the weekly mail truck but the difference between city, town and bush remains – and the cyclones, droughts and floods keep coming. (Malcolm Ainsworth, sub. 10, p. 1)

The extent to which there remains a significant gap between urban Australia and some remote areas is considered in more detail in section 2.3 below.

What is driving change in remote Australia?

Change is a feature of modern life; economic, social and environmental change affects the opportunities people can access. These opportunities, in turn, influence where they choose to reside, what kind of work they do, and how they live their lives.

Myriad things drive change, affecting different remote areas in different ways. While the root cause is not always clear, some broad observations can be made on the drivers of change for remote parts of Australia.²

Economic and social change encourages people and businesses to congregate

Structural change in the Australian economy has been a key reason why some areas have flourished while others have struggled. Australia's development from an agrarian economy into a service economy has made economic growth increasingly reliant on the productivity of major cities (BITRE 2014). This trend is not limited to Australia; urbanisation is evident in other developed countries (IBRD & World Bank 2009).

People often move in response to economic opportunity, and the cost of being 'left out' of the economic engine room of the major cities has increased over time. Many people are increasingly aware of (and expect many of) the amenities that cities have to offer. This is particularly true for younger Australians; the Commission's analysis has found that, among remote Australians, those most likely to move are aged between 10 and 40 years. A previous Commission study highlighted that young people often relocate from regional areas to pursue opportunities in cities (such as higher education and employment) (PC 2014, p. 118).

In its 2014 analysis of Australian towns, the Bureau of Infrastructure, Transport and Regional Economics (BITRE) pointed to a number of social and economic factors affecting

² An in-depth study of where Australians have lived over the 20th century, and why, is available in BITRE (2014).

where people now choose to live in Australia (BITRE 2014, p. 6). These factors tend to either:

- encourage *centralisation* in larger cities (for example, as a result of structural change in the economy, better transport, and higher female participation in the labour force), or
- increase the importance of *amenity* in choosing where to live (for example, as a result of an ageing population with a higher number of retirees, and higher wealth).

BITRE noted that increased access to income support and superannuation has meant that some people's choices about where to live are less closely linked to employment. This would tend to decrease the incentive to live in major population centres, but allow retirees to live in places which are 'pleasant' yet accessible — hence the expansion of coastal centres such as Busselton, Byron Bay or Hervey Bay. The Commission's prior study of *Transitioning Regional Economies* found a strong negative relationship between the remoteness of an area and the ability of its residents to adjust to economic shocks (2017b, p. 134).

Together, these factors help explain at least *some* of the population drift away from remote Australia.

That said, a story of 'rural decline' paints over the divergent experiences of remote areas. In particular, the mining boom during the first decade of the 2000s brought new life to many places in remote Australia (although this has been tempered by the rise of 'fly-in fly-out' (FIFO) and 'drive-in drive-out' (DIDO) employment arrangements, discussed below). Similarly, other parts of remote Australia have been able to position themselves as unique tourist destinations (like Lord Howe Island), or — in spite of their remoteness — as service hubs for their surrounding regions (like Kalgoorlie-Boulder).

Technology lessens the tyranny of distance

Just as economic activity nationally has become concentrated in cities, similar trends are evident at smaller scales. Many regional centres have expanded at the expense of their hinterland — leading to local centralisation, and population decline in smaller towns. Many of the faster-growing regional centres are coastal; a good example is Cairns, which has expanded on the back of its tourism industry and its role as a regional centre (box 2.2).

Centralisation is partly a result of less costly and more reliable transport over longer distances: as people can travel farther abroad, goods and services no longer need to be obtained locally (BITRE 2014). Similarly, where businesses would previously have needed to purchase inputs locally, they can now import from other regions (and countries) — so there are now fewer, larger industry hubs, specialised in particular processes (BITRE 2014).

Increasingly mobile labour means more employees do not live where they work

Within certain industries, changing labour requirements (such as higher demand for more skilled occupations) have altered the structure of the workforce. Together with higher

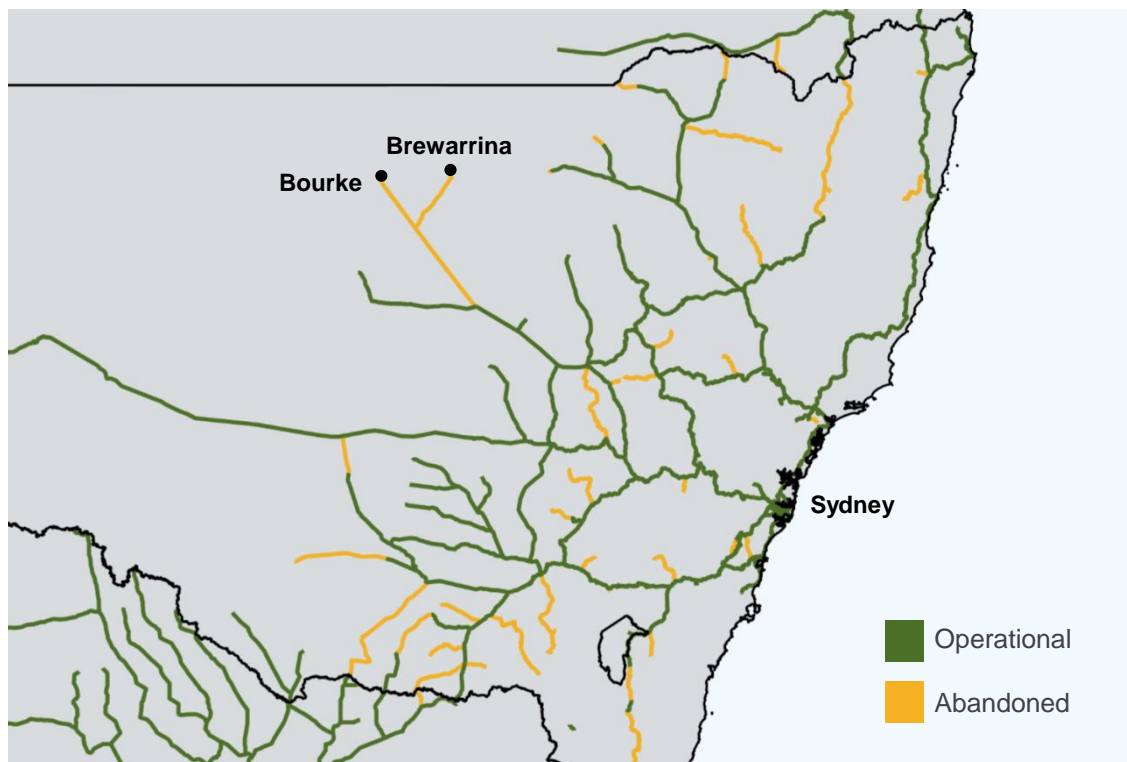
incomes, the wider availability of cheaper flights, and better roads, this has contributed to the rise of the FIFO/DIDO model of employment (particularly in mining) since the 1980s (HRSCRA 2013).

Many workers in remote areas now no longer ‘settle down’ where they work, and mining towns have become a thing of the past in some areas. People can instead choose to live in cities or towns with better access to services for them (and their families), and to work wherever opportunities are available.

Rationalisation of government and non-government services

Submissions to the Cox Review (1981) highlighted that some services had become *less* accessible over time in remote areas, as declining populations in smaller communities prompted governments and businesses to rationalise services in regional centres. An example is the reduced reach of the rail network in regional and remote New South Wales, which now focuses more on ‘main lines’ with fewer offshoots (figure 2.3). The western line past Nyngan was cut off when a flood washed away the bridge over the Bogan River in 1990. The New South Wales Government did not view it as financially viable to replace the line, effectively disconnecting Bourke from the rail network.

Figure 2.3 **Abandoned rail lines, New South Wales**



Source: Geoscience Australia GEODATA TOPO 250K Series 3, June 2006.

Service rationalisation can reduce the costs of providing services, but can contribute to a feedback loop of decline in smaller remote communities. As fewer and fewer services are available locally, the pull of the city (or regional centre) becomes harder to resist.

What does this mean for remote Australia?

Most of Australia is less isolated than it once was, and the march of technology has improved connectivity in many remote areas. Some previously isolated places have grown substantially over time and are now major cities, well connected with the rest of the Australian economy. As such, they are effectively no longer remote. Other remote areas have grown — although they remain remote in many ways — and living standards have improved in accordance with economic, social and technological trends.

However, proximity to major cities has become more important to the economic development of many places. Many Australians now expect better amenities, and access to more services, than can be provided in remote areas. The need to be connected to the modern economy has meant that economic opportunities are less apparent for many residents outside of major urban centres simply because of distance. Falling employment in industries tied to the land (agriculture in particular) has seen populations decline in some more-remote locations. Government and businesses have tended to withdraw services from smaller communities, encouraging further population decline.

Overall, the boundaries of remote Australia, and the conditions faced in those areas, have changed considerably since 1945.

DRAFT FINDING 2.1

The broader context for remote area tax concessions has changed considerably since their introduction in 1945. Technological advances have helped lessen the hardships of life in remote parts of Australia. Some areas once considered isolated, such as Cairns and Darwin which are now home to international airports and populations exceeding 100 000 people, can no longer reasonably be considered remote.

2.2 How remote Australia compares today

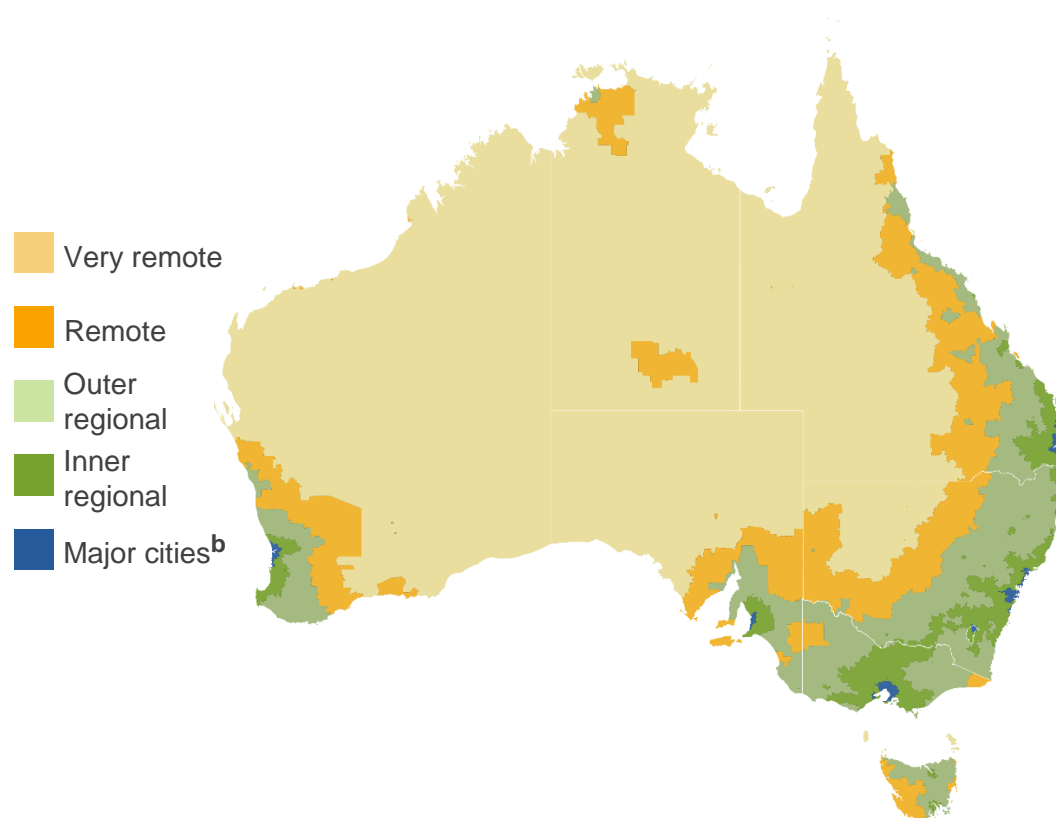
The changes (and drivers thereof) discussed above have led to remote Australia as we see it today. Of interest for this study is not just how today's remote Australia compares to its past, but also how life there today compares to life in other parts of Australia. It is this comparison that underpins the justification for specific tax concessions and payments to Australians living in remote areas.

There is a temptation to view Australia in binary terms: the cities (urban Australia) and 'everywhere else' (rural Australia). This simple split obscures key differences *within* rural

Australia. The unique circumstances of those few Australians who live in remote areas often differ from, and can be masked by, the characteristics of rural Australia more broadly. In fact, the Australian Bureau of Statistics (ABS) distinguishes between five levels of remoteness on the basis of geography, with *inner* and *outer regional areas* being categorised separately from *remote* and *very remote* areas (figure 2.4; chapter 1). Some places that were once considered remote, including Darwin, Cairns, Townsville and Mackay, are now classed as being *outer regional areas*.

That said, remote Australia itself encompasses a huge diversity of people, cultures, natural environments and settlements (box 2.3). It is impossible to tell a single story of life in remote areas. Things said about one area will often not correspond directly to another.

Figure 2.4 **ABS remoteness areas^{a,b}**
2016



^a Remoteness areas are defined by an index of road distances to service centres: towns of sufficient size to provide certain services. Chapter 1 provides a fuller explanation. ^b *Major cities* include Sydney, Melbourne, Brisbane, Perth, Adelaide, Canberra and Newcastle.

Source: ABS (2018c).

Box 2.3 **Remote Australia is not all the same**

As part of its study, the Commission visited a wide range of remote locations in Australia. The following examples highlight the observed diversity in population, climate and conditions.

Andamooka (South Australia)

Andamooka (official population 316, in the 2016 Census) was established in the 1930s by opal miners. Located 600 kilometres north of Adelaide in the South Australian desert, Andamooka averages less than 200 mm of rainfall a year, with mean maximum temperatures of more than 35°C in the summer months. Until the construction of a pipeline in 2007, water was trucked to the town from nearby Roxby Downs (which itself came into existence only in 1988).

Lord Howe Island (New South Wales)

Located 600 kilometres east of the Australian mainland, this lush island is a remote tourist destination home to just 382 people (but up to 400 tourists at a time). The climate is temperate (temperatures rarely exceed 30°C) but humid, with relatively high rainfall (1500 mm a year) and frequent winds.

Maningrida (Northern Territory)

Maningrida is a remote Indigenous community on the north coast of Arnhem Land in the Northern Territory. The population varies considerably, but can be as high as 2600 people. The median age is just 27 years (compared with 38 for Australia as a whole). Darwin is about 500 kilometres to the west, but roads are often impassable during the wet season. Many people travel by plane, and most goods are brought in on a weekly barge.

Mount Isa (Queensland)

Mount Isa (population 22 000) is a 900 km drive west of Townsville, and was built to service the vast mineral deposits of inland Queensland. Today, with many of its minerals depleted, Mount Isa is an administrative, commercial and industrial centre for the surrounding region. Like much of inland Australia, it has a hot and semi-arid climate, with average annual rainfall of less than 500 mm.

Port Hedland (Western Australia)

Port Hedland is an industrial town on the north-west coast of Western Australia, more than 1300 km from Perth. It has the highest-tonnage port in Australia, and is a key export terminal for iron ore. As the second-largest town in the Pilbara region (at 14 320 people), it functions as a service centre for much of the surrounding region. Port Hedland is one of the sunniest places in Australia; average maximum temperatures exceed 35°C during summer, and average annual rainfall is just 320 mm.

Queenstown (Tasmania)

Queenstown is a mining-based community in west Tasmania, settled in the early 1900s. The town's fortunes have oscillated with the boom-bust nature of the industry, with its population reaching as high as 5000 in the past. (The current population is closer to 1750.) Queenstown's median age is 45, well above the median age for Australia as a whole (38). The climate is among the wettest in Australia, averaging 2400 mm a year with 240 rainy days.

Sources: ABS (2017a); BOM (2013).

The demographics of remote Australia are different

Although over 85 per cent of the Australian landmass is defined as *remote* or *very remote* by the ABS, just 2 per cent of Australia's population live in these areas. These residents are predominantly male, of working age, and younger than Australia as a whole. A relatively large (and growing) share of the *remote* and *very remote* population is Indigenous, accounting for about 28 per cent of remote area residents compared with 1.5 per cent of major city residents (table 2.1). About 19 per cent of all Indigenous Australians live in *remote* or *very remote Australia*, although this share has fallen over time because of population growth in the *major cities*.

Table 2.1 **Population characteristics by remoteness**

Based on 2016 ABS remoteness categories

	<i>Major cities</i>	<i>Regional^a</i>	<i>Remote^b</i>
	%	%	%
Under 15 years old	18.7	18.9	22.0
Working age population	67.9	63.2	67.8
Over 65 years old	13.4	17.9	10.2
Indigenous	1.5	4.9	28.2

^a Includes both *inner regional* and *outer regional*. ^b Includes both *remote* and *very remote*.

Source: ABS (2017b) *Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.

Within the remote population, there are marked disparities between Indigenous residents (as a group) and non-Indigenous residents (as a group) in terms of age and sex distributions and socioeconomic outcomes. These differences are far less stark in urban areas. Any depiction of remote Australians must canvass these differences.

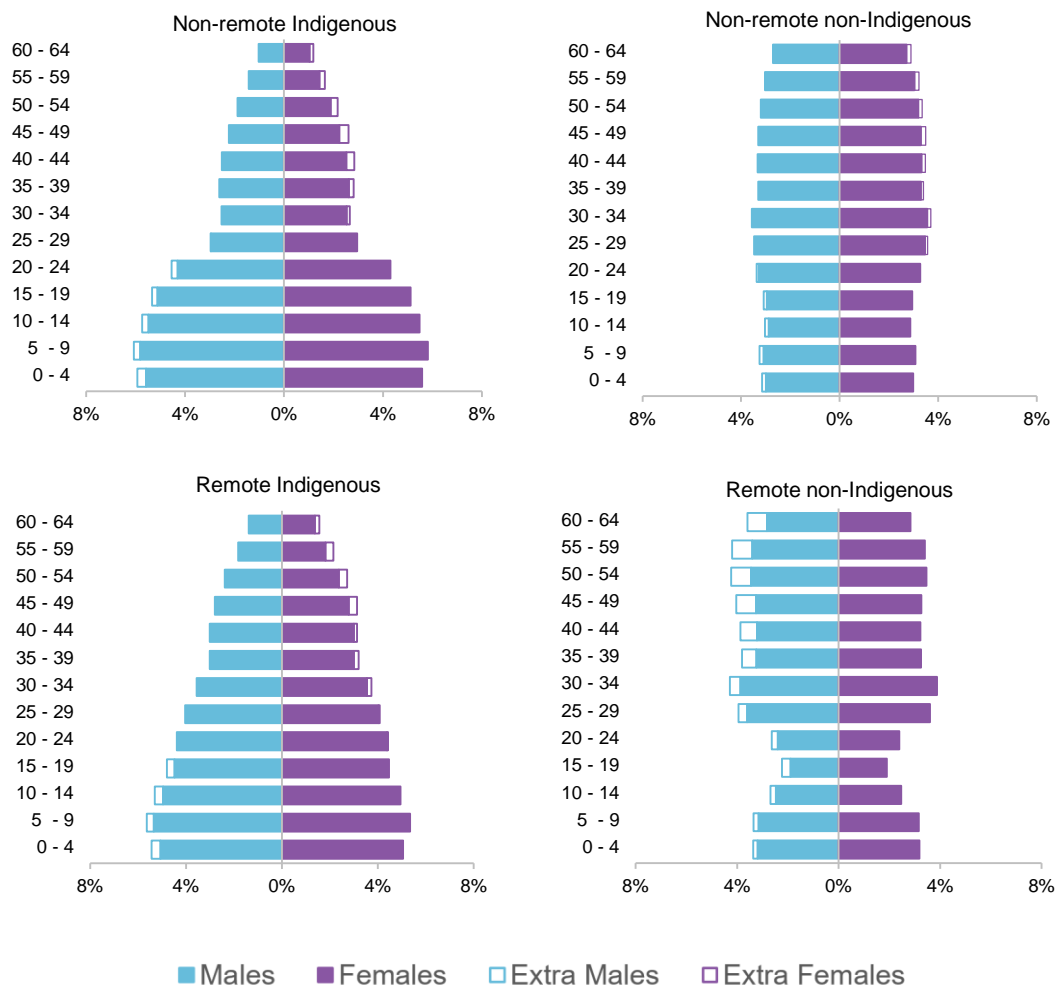
Age and mobility

The age distribution of the non-Indigenous population is 'lumpy' because people tend to migrate in and out of remote areas at particular stages in their life (figure 2.5). Residents of remote areas often depart for cities during the later years of high school, or when commencing tertiary education. Likewise, as people approach retirement age, many relocate to areas of higher amenity (such as coastal towns), or areas where medical and aged care services are more accessible.

The non-Indigenous resident population of remote areas is largely of working age. There is a spike for people in their mid-20s, coinciding with the completion of tertiary education, which is sustained for much of a typical working life. This trend appears to be motivated (at least in part) by both employment opportunities and higher remuneration in remote areas. For non-Indigenous people, median personal incomes are 36 per cent higher in *remote areas* than in *major cities*, and 56 per cent higher in *remote areas* than in *regional Australia* (ABS 2017b). Additionally, the fact that many remote area industries (such as mining) tend

to employ more men than women also tends to skew remote area populations towards men (PC 2014, p. 130).

Figure 2.5 **Demographic profile of Australia**
By ABS remoteness areas



Note: Those aged 65 and over are excluded from the graph for visual clarity. This cohort is proportionally much lower in remote areas than in 'major cities'. 'Extra' is defined as the proportion at any given age group by which one gender exceeds the population of the opposite gender. 'Remote' is the sum of 'remote Australia' and 'very remote Australia' as defined by the ABS.

Source: ABS (2017b), *Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.

The population distribution of Indigenous Australians in *remote areas* is markedly different. The age distribution is essentially linear, with the relative share of the population declining with age (figure 2.5). This can be partially attributed to higher fertility rates for Indigenous Australians. Notably, the 'lumpiness' in the distribution of non-Indigenous Australians is not evident, reflecting the lower level of internal migration to and from *remote areas* by Indigenous population (AIHW 2018b).

This is reflected in census figures which show that Indigenous Australians in *remote areas* are less mobile than those in the rest of Australia (table 2.2). For example, in *very remote areas*, 86 per cent of Indigenous people lived in the same geographic area as they did five years previously, whereas only 61 per cent of non-Indigenous people did likewise. By comparison, mobility rates were broadly similar for Indigenous and non-Indigenous Australians in non-remote parts of the country — in fact, non-remote Indigenous Australians were slightly more likely to have moved.

Table 2.2 Geographic mobility by remoteness^a

Proportion of individuals who moved out of a statistical area level 2 (SA2)^b between the 2011 and 2016 census by remoteness

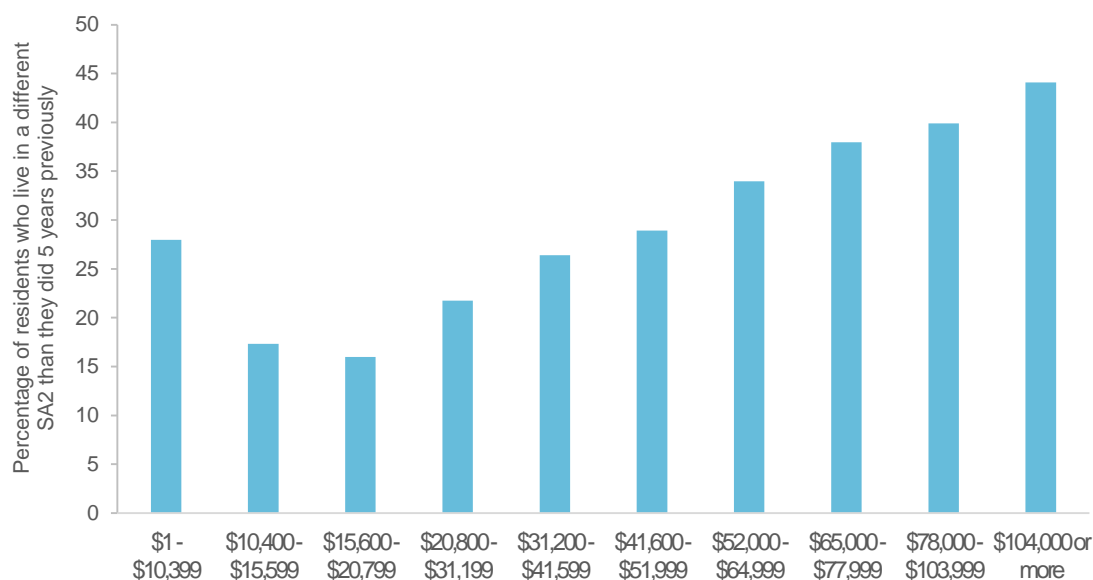
	Indigenous	Non-Indigenous ^a
	%	%
Rest of Australia	38.5	33.4
Remote	24.7	33.1
Very Remote	13.8	39.3

^a Mobility was estimated by comparing the SA2 of an individual's residence in 2011 to the SA2 of their residence in 2016. ^b Statistical Areas Level 2 (SA2) are geographic areas, typically with an average population of about 10 000 people, considered by the ABS to encompass communities that interact socially and economically (ABS 2016c).

Source: ABS (2019a), *Australian Census Longitudinal Dataset, Tablebuilder, Australia, 2011–2016*, Cat. no. 2080.0.

Mobility also varies with income. Previous studies have indicated that higher-skilled workers tend to migrate more often because the gains from migration are higher than for less-skilled workers (PC 2014). A higher income (or greater wealth) can also reduce barriers to mobility relating to relocation costs that are incurred when moving between labour markets. Based on recorded movements between the 2011 Census and 2016 Census, *remote area* residents with high incomes had much greater levels of mobility than those on lower incomes (figure 2.6), which holds for both Indigenous and non-Indigenous residents.

Figure 2.6 Geographic mobility by income^a
Residential movement between 2011 and 2016 by SA2^b



^a Mobility was estimated by comparing the SA2 of an individual's residence in 2011 to the SA2 of their residence in 2016. ^b Statistical Areas Level 2 (SA2) is a geographic area defined by the ABS that aims to represent a community that interacts socially and economically, with an average population of about 10 000 people (ABS 2016c).

Source: ABS (2019a), *Australian Census Longitudinal Dataset, Tablebuilder, Australia, 2011–2016*, Cat. no. 2080.0.

Employment and income

A lack of mobility hinders access to both education and employment, and this contributes to divergent labour market outcomes for Indigenous and non-Indigenous residents.

Indigenous Australians of working age in *remote areas* are much less likely to be in the labour force than non-Indigenous people in *remote areas* (44 per cent and 75 per cent respectively), and they are also much more likely to be unemployed (26 per cent and 4 per cent respectively) (table 2.3).

Table 2.3 Labour market outcomes
2016

	<i>Indigenous Remote</i>	<i>Indigenous Major Cities</i>	<i>Non-Indigenous Remote</i>	<i>Non-Indigenous Major Cities</i>
	%	%	%	%
Labour force participation ^a	43.8	56.3	74.9	64.8
- Full-time employed	48.2	52.8	73.1	61.0
- Part-time employed	25.7	30.5	23.2	32.3
- Unemployed	26.0	16.7	3.6	6.7
Employment to population ratio ^b	32.4	46.9	72.2	60.5

^a Percentage of those who work full-time or part-time or are currently unemployed but seeking work, as a percentage of the overall population of working age individuals. ^b Individuals in employment as a percentage of the population over the age of 15.

Source: ABS (2017b), *Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.

This gap in labour market outcomes is a longstanding phenomenon, but has become more pronounced since 2011 as employment rates have fallen for remote Indigenous Australians (Venn and Biddle 2016).³

A number of submissions⁴ noted the significant variation in incomes *within* remote Australia. In some parts of remote Australia, employers provide large remuneration packages to attract workers and unemployment is low (as in some mining regions), whereas other parts experience chronically high unemployment and relatively low wages (Daley, Wood and Chivers 2017). Indeed, 2016 Census figures show that there were proportionally more people earning less than \$300 a week, as well as proportionally more people earning more than \$2000 a week, in *remote areas* compared with the rest of the country (ABS 2016a).

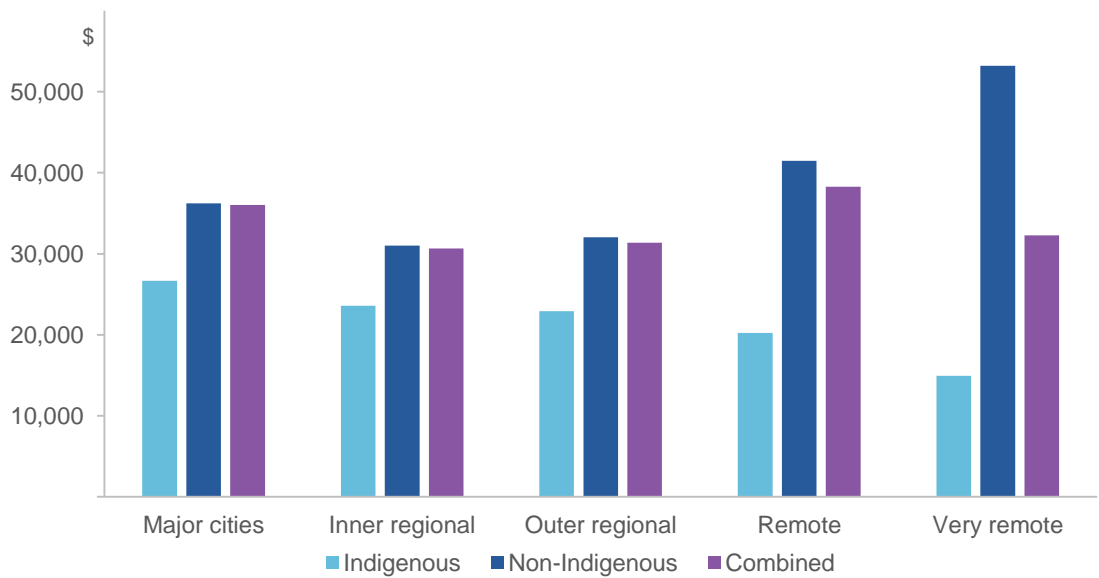
In aggregate, these divergent outcomes largely cancel out. There are only small differences in median incomes between *remote areas* and Australia as a whole, and no clear pattern with respect to remoteness (figure 2.7). However, there is substantial variation in the composition of the population (such as by gender, occupation, level of education, age, and working hours) between *remote* and *non-remote* Australia that would affect median incomes. For example, considering the Indigenous population separately indicates that median incomes are

³ Some of the drop in reported employment for Indigenous people in remote areas between 2011 and 2016 can be attributed to the demise of the Community Development Employment Project (CDEP) scheme (participation in which was counted as employment in censuses prior to 2016), but it also reflects weak labour market conditions. Employment fell for both Indigenous and non-Indigenous people in remote areas during that period, but the gap in the employment *rate* widened because non-Indigenous people moved away from remote areas as job opportunities dried up (Venn and Biddle 2016). Previous government reporting has noted that the employment of Indigenous Australians in remote areas is strongly linked to the wider Australian economy, particularly when industries linked to commodities (often based in remote areas) perform strongly (AHMAC 2017).

⁴ These included Mareeba Shire Council, sub. 13; Katherine Trigg, sub. 17; and Central Land Council, sub. 35.

significantly higher for non-Indigenous people in *remote* and *very remote Australia* than in *major cities*, while the inverse is true for Indigenous Australians (figure 2.7).

Figure 2.7 **Median incomes by remoteness**
2016



a Incomes include non-wage income, such as social assistance and business income. **b** The combined column shows the median income of the entire population by remoteness category.

Source: ABS (2017b), *Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.

Remote areas are socioeconomically disadvantaged

In spite of strong work and earning opportunities in some remote areas, numerous studies have shown that socioeconomic disadvantage increases with remoteness. Disadvantage is a multidimensional concept that can encompass poverty, the inability to afford the basic essentials of life (material deprivation) or social exclusion. Studies have also shown that the level of disadvantage is particularly pronounced for the Indigenous population (SCRGSP 2016), and that the increase in disadvantage associated with remoteness is higher for the Indigenous population than for the non-Indigenous population (box 2.4).

Box 2.4 **Disadvantage is associated with remoteness**

Recent studies have found an association between disadvantage and remoteness.

The Commission's *Transitioning Regional Economies* study report (PC 2017b) found that the proportion of regions that are in the least adaptive category increases with remoteness. That is, regions with the lowest relative adaptive capacity are concentrated in outer regional and remote or very remote areas of Australia (PC 2017b, pp. 10; 127; 134).

The report found that factors relating to people (education, skills, employment and health) strongly influence adaptive capacity, particularly for urban communities. However, for communities in remote areas, adaptive capacity is influenced by these factors *coupled with* factors associated with remoteness (such as accessibility to services and infrastructure).

Overall, communities in cities and inner regional areas have the highest capacity to adapt, largely due to their connectivity with other regions and markets, and the diverse skills and higher education levels of their workforce ... Remote areas with low relative adaptive capacity are typically those with limited access to resources that underpin economic and social wellbeing. Access to infrastructure and services is more limited in these areas and people within these communities have lower levels of education and fewer employment opportunities. (PC 2017b, p. 135)

The report noted that it is therefore unsurprising that remote regions with the least adaptive capacity frequently have high levels of disadvantage (PC 2017b, p. 12).

The Commission's *Overcoming Indigenous Disadvantage: Key Indicators report* found that, for most indicators that can be disaggregated by remoteness, outcomes for Indigenous Australians worsen as remoteness increases (SCRGSP 2016, p. 8). The report found that average outcomes for Indigenous Australians in *major cities* and *regional areas* are better than outcomes for Indigenous Australians in *remote* and *very remote areas*, and that this is true for health, education, employment and housing (SCRGSP 2016, p. 3.16).

The Commission's research paper *The Demand Driven University System: A mixed report card* found that:

Children growing up in regional or remote areas with the same academic ability as their metropolitan peers continue to be much less likely to attend university. While the current study has not investigated the reasons in detail, it seems likely the high cost (both monetary and non monetary) of moving to the cities where major university campuses are located is a significant, and perhaps increasing, barrier (PC 2019a, p. 16).

Similarly, the Australian Institute of Health and Welfare reported that Australians living in rural and remote areas generally experience poorer health and welfare outcomes than people living in metropolitan areas.

Australians living in rural and remote areas tend to have shorter lives, higher levels of disease and injury and poorer access to and use of health services compared to people living in metropolitan areas. Poorer health outcomes in rural and remote areas may be due to a range of factors, including a level of disadvantage related to education and employment opportunities, income and access to health services. (AIHW 2017)

One example can be seen with school NAPLAN⁵ results, where fewer students in *remote areas* meet minimum standards (table 2.4). In reading, 94 per cent of non-Indigenous students in *major cities* meet minimum standards, but this drops to 87 per cent in *very remote*

⁵ National Assessment Plan – Literacy and Numeracy (NAPLAN) is an annual standardised test in reading, writing, language and numeracy for primary and secondary students in Australia.

areas. Outcomes are significantly poorer for Indigenous students when separated by remoteness; 80 per cent meet minimum reading standards in *major cities*, but only 25 per cent do so in *very remote areas*.

Table 2.4 NAPLAN results by remoteness
Percentage meeting minimum national standards in Year 9

Remoteness	Reading		Writing		Numeracy	
	Indigenous	Non-Indigenous	Indigenous	Non-Indigenous	Indigenous	Non-Indigenous
Major cities	80	94	59	86	89	97
Inner Regional	78	92	54	79	88	96
Outer Regional	69	90	44	76	85	96
Remote	55	91	33	76	77	97
Very Remote	25	87	15	75	55	96

Source: NAPLAN (2017).

Other measures of disadvantage — including home ownership, financial stress, health outcomes, prevalence of disability and life expectancy — often worsen with remoteness (AIHW 2015). However, this is not always the case. Some self-reported health outcomes for Indigenous Australians improve with remoteness: a smaller proportion of Indigenous Australians reported their health status as being only fair or poor in *remote areas* (20 per cent) than in *non-remote areas* (27 per cent) (ABS 2016b).

Primary industries remain important, but services dominate employment

Just as the demography of remote areas differs from metropolitan areas, so does the make-up of the remote economy. The economies of many remote communities are often still reliant on natural resources, such as arable land, mineral resources, or natural tourism assets. As a result, the agriculture, mining and tourism industries are more prominent in remote areas than in Australia as a whole (table 2.5).

Table 2.5 Sector of employment by remoteness
2016

<i>Sector of employment</i>	<i>Major Cities</i>	<i>Regional</i>	<i>Remote</i>
	%	%	%
Mining	1.1	2.7	12.9
Agriculture	0.6	7.6	15.3
Other Market Sector ^a	69.2	59.7	44.1
Non-Market Services ^b	29.1	30.0	27.8

^a Includes manufacturing and market services. Tourism is also included; it cannot be measured separately as it is a subset of existing employment sectors (such as accommodation services) where the customer is a visitor. ^b Includes Healthcare, Education and Public Administration.

Source: ABS (2017b), *Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.

Inward monetary flows, usually from those three industries, generate flow-on spending for businesses that support the industries or that service local employees and residents. So, even though primary industry employment is crucial for the viability of many remote communities, most people are directly employed outside of those industries.

Non-market services are important contributors to employment in some remote areas. In Alice Springs, the Pine Gap military facility employs 800 people directly (Dorling 2015). Similarly, military personnel and their families make up a quarter of Katherine's population (RAAF 2019). Government employment in public administration, healthcare and education tends to be more prevalent in areas with relatively low market sector employment, and is especially so in communities with high Indigenous populations.

Notwithstanding the overall diversity of industry in remote Australia, individual communities frequently possess undiversified industry structures. For example, Roxby Downs would not exist if not for the Olympic Dam mine nearby; Broome would be much diminished without tourism, as would Kununurra without the irrigated agriculture enabled by the Ord Dam. The lack of diversity can leave local communities vulnerable to economic shocks, such as exchange rate or commodity price shifts, which can threaten their overall economic viability (BITRE 2014).

The Commission's previous study of *Transitioning Regional Economies* found that remote areas — especially those reliant on a single major industry — were less capable of adapting to economic shocks. The consequences are compounded by other factors, such as local access to transport and lower education levels, which affect the ability of residents in remote areas to seek employment elsewhere (PC 2017b).

DRAFT FINDING 2.2

Among the 2 per cent of Australians who live in remote areas, Indigenous Australians constitute 28 per cent of the population. There are large differences in income and employment outcomes between the Indigenous and the non-Indigenous population. Indigenous Australians in remote areas are also significantly less likely to relocate compared with their non-Indigenous counterparts.

2.3 Challenges of life in remote Australia

Residents of remote areas face a range of economic and social challenges tied to distance. As part of this study, the Commission invited submissions and undertook an extensive program of visits to understand the demands of life in remote Australia.

Many people who participated in this study highlighted issues they face on a daily basis, including higher costs of living, isolation, poorer access to services and difficult climatic conditions. Some residents keenly felt the absence of the things they believed were ‘taken for granted’ in larger cities. And some held deep concerns over social and economic decline in their local community, the loss of social fabric, and the future prospects for their towns.

In some cases, the challenges raised diverged sharply from one town to the next; in others, the same issues resonated with people from opposite ends of the country. That said, some concerns — such as difficulty in affording or accessing certain services — would also be shared by many residents of major urban centres. In dissecting the issues raised, the Commission considered the unique challenges facing remote area residents that are intrinsically linked to the remoteness of the areas in which they live.

This section explores the issues which resonated most with study participants around the country.

Cost of living

One of the most frequently-cited concerns about life in remote areas is the cost of living. Many facets of life are more expensive in remote Australia, and study participants have provided numerous examples and anecdotes about higher prices for goods and services in remote communities (box. 2.5). The most common cost-of-living issues raised in submissions were the high prices of food and groceries, transport (especially flights), fuel, freight, and basic utilities (such as water and electricity).

The story is less clear for other living costs. For housing in particular, there is some evidence to suggest that median rents are considerably lower in *remote Australia*, while other evidence suggests that overall housing costs (including the cost of utilities, rates and insurance) increase with remoteness.

Box 2.5 **Many facets of life can be more expensive in remote areas**

Former Murchison resident Malcolm Ainsworth (sub. 10, p. 1) highlighted the high costs he experienced day to day, including:

Long hours in cars to get anywhere; high airfares; fuel prices; food prices; costly housing; high insurance costs; liquor restrictions in some of the very remote regions; poor roads that bash their cars to pieces; high education costs of kids having to be sent away to schools; medical services where the Flying Doctor works day and night; lack of entertainment and access to major events such as concerts, grand finals and the like.

Carnarvon-based Hits Radio (sub. 11, p. 1) commented that:

Everything you purchase in these areas has additional freight charges. Things such as fuel, food, white goods, clothes, drinks, cars are just a few. Then because of the remoteness, the basic services such as power and water cost much more than the cities or even in the south of Western Australia. Because of all of these costs, they are all passed onto the end purchaser.

Andamooka residents observed that, even if they only paid as much for water as in Adelaide, they still had to cover the extra costs of a water carrier and water tanks. They also told the Commission that they'd had to install their own water pipeline all the way from the desalination plant at Olympic Dam.

The King Island Chamber of Commerce (sub. 21, p. 1) noted the particular difficulties of living on an offshore island, largely because:

... air flights are the only way on and off island. Often the cost of these become prohibitive for families and they select to leave the island.

Burketown resident Madison Marshall (sub. 51, p. 1) described how the costs (and availability) of transport can increase the cost of accessing specialist health services.

For specialist health appointments we have to travel to Mount Isa or Townsville as there aren't services other than a weekly doctor provided here. To go to these specialist appointments, minimum fees are subsidised and most expenses incurred (travel, accommodation, meals) are to be covered by the individual themselves. There are no public transport providers in/out of Burketown other than Regional Express Airlines. Even though there is a service provided by Regional Express, there are very limited options for days to fly in and out. The cost of a return trip from Burketown to Cairns is approximately \$927.00 per person.

Residents of Maningrida (NT), King Island (Tasmania) and Lord Howe Island (NSW) told the Commission about the cost of sea freight, claiming it puts an approximately 30 per cent mark-up on the price of any goods brought in. Residents of Lord Howe also noted that repairs of vehicles were especially expensive, with anything beyond minor repairs requiring transport off the island (at a cost of \$2000 each way).

The higher cost of living in remote Australia is a key rationale underpinning the zone tax offset (chapters 4 and 5) and the remote area allowance (chapter 6). Although the examples provided in submissions and other consultations are valuable, they are not comprehensive enough to assess whether the cost of living is indeed higher in remote Australia and, if so, to what extent.

The Commission has therefore drawn on a wider range of sources — including data from the ABS, the ACCC, and the consumer advocacy body CHOICE, as well as State-based price surveys — to develop an understanding of cost-of-living differentials across Australia. Even so, the data available are patchy, which adds to the difficulties of comparing the cost of living

across disparate parts of Australia. At times, they provide conflicting evidence and should be used with caution.

The Commission's analysis of these sources is contained in appendix B.

Many goods and services are more expensive

The data sources considered by the Commission provide clear and consistent evidence that food and grocery prices increase with remoteness. For example, the Northern Territory Market Basket Survey found that, in 2016, the average cost of a healthy food basket in remote stores was 29 per cent higher than in a Darwin supermarket. The presence of a major supermarket chain store has a substantial dampening impact on food and grocery prices. Data from CHOICE indicate that major supermarkets apply broadly uniform pricing across Australia. Higher food prices are therefore more prevalent in areas that lack major supermarkets.

More generally, the prices of non-perishable goods bought online tend to be identical across Australia. However, freight costs can add to the final cost of delivered goods significantly in remote areas. In some places, delivery may not even be available, and so residents must travel to collect the goods themselves or go without.

Australians in remote areas have different patterns of consumption than city residents: that is, they purchase more of some things and less of others. For example, residents of remote areas face additional car maintenance and fuel costs when they have to drive long distances to access particular services. A resident of Useless Loop in Western Australia observed that:

Essentially to do almost anything, that the general public take for granted, necessitates a 350km trip by road, to the nearest towns of Carnarvon or Geraldton. Some 120km of that road journey is unsealed, and often impassable, roadway. (Katherine Trigg, sub. 17, p. 1)

Regional price index data indicate that measured transport costs are about the same or greater in *remote Australia* than in the capital cities, while the ACCC (2019) estimated that fuel prices are 7 cents a litre higher (on average) in regional locations. However, neither measure includes airfares, and Australians residing in remote areas appear more likely to rely on flights to access services. A number of studies have indicated that regional airfares are high, largely because of low economies of scale and high operational costs.

Determining the relative cost of housing is more complex

The overall impact of remoteness on housing costs for individual households is not clear cut.

- On the one hand, regional price index data from Queensland and Western Australia (and data provided by the Department of Defence) indicate that housing costs in the most remote communities can be significantly higher than in the State capital. This could be a result of higher construction costs, or of restrictions on land use in some communities.

-
- ABS census data, on the other hand, show that median weekly rents are significantly lower in *remote* and *very remote Australia* than elsewhere. While these data do not take into account differences in housing quality, lower rents in *remote areas* can be attributed partly to the high reliance on subsidised social housing in remote communities and partly to housing assistance provided to employees under the fringe benefits tax remote area concessions (chapter 7).

It seems that as the degree of remoteness increases, lower land costs are more than offset by higher construction costs, the result being higher costs overall. This is particularly true in small communities lacking resident tradespeople, and in places where materials need to be transported long distances or over water (such as King Island and Lord Howe Island).

The evidence is not definitive for other categories

Recreation is also a key category of the average Australian's expenditure; it includes holiday travel and accommodation, digital entertainment (such as televisions) and sports equipment. There is mixed evidence about whether this is more expensive in remote areas than elsewhere, although transport and freight increase the cost of obtaining some of these items.

On balance, these data suggest that there are living cost pressures that are inherent to remoteness. These pressures are likely to be more pronounced in *very remote areas*. The Commission intends to undertake further analysis of living costs for the final report.

DRAFT FINDING 2.3

There is some evidence that the cost of living increases with remoteness.

INFORMATION REQUEST 1

The Commission is seeking data (to augment the data used in this draft report) capable of supporting a comparison of the cost of living in different parts of Australia, particularly in relation to housing costs.

Service accessibility

Impaired access to services and modern amenities was one of the major concerns put forth by residents living in remote areas (box 2.6). Although many accept that services will never be 'the same' as in cities, some viewed the inequity as being too great.

We accept that due to our location, costs for goods, services will be higher and accessibility to same will be lower. We also accept that there is not ready access to education and health services. We do not ask for equality of services but rather equity (Ernie and Kylie Camp, sub. 64, p. 5).

Box 2.6 **Difficulties in accessing services**

Remote areas lack the requisite population to sustain many market and non-market services. Several participants (such as Malcolm Ainsworth, sub. 11; Livingstone Shire Council, sub. 29; John Juniper, sub. 48; and Tonya Murray, sub. 50) shared remarks on the relative disparity in service access between their communities and less remote areas. Katherine Trigg (sub. 17, p. 1) of Useless Loop (Western Australia) gave a snapshot of these differences within her community:

- limited visitor access;
- limited educational facilities (kindergarten to year six);
- [limited] access to groceries and other household commodities;
- limited postal and social services;
- limited telephonic and internet communications;
- limited access to medical facilities;
- limited shopping – the community store is opened for around an hour each day;
- no public entertainment facilities;
- limited sporting venues and no formal sporting clubs or societies, other than a local fishing club;
- limited motor vehicle service and refuelling facilities; and
- an intermittent power supply.

Because services are often not available locally, there are additional costs involved in accessing them elsewhere. For secondary education, students are generally restricted in subject choice, cannot attend later years of schooling and frequently have small class sizes meaning students have few peers. These reasons, among others, have been cited by numerous participants (including Shannon Moren, sub. 49 and ICPAA, sub. 74) as reasons why parents find it necessary to send their children to boarding schools. Burke Shire Council (sub. 42, p. 2) highlighted the costs and challenges of doing so.

With our local school only going to year 6, children must then go to boarding school. Airfares to and from boarding school ex Mt Isa can be upward of \$700 per student and we know of families who have had to pay almost \$1200 per child to get them back home or back to school.

From 2016 figures, the average Queensland boarding school cost per student is \$29,629. This results in out of pocket expenses, after maximum state and federal non-means tested allowances, of \$16,397.

Similarly, a number of submissions (James Potter, sub. 25 and AJ & PA McBride Ltd, sub. 61) highlighted the costs of accessing healthcare for people with complex needs. These costs can exceed the cost of the consultation or procedure, with lengthy travel and accommodation expenses, in addition to forgone time spent travelling to meet a healthcare professional. Kangaroo Island resident Lisa Thompson (sub. 9, p. 22) relayed the views of a fellow resident (Anne A'Herran) on this:

Endodontists do not exist on KI ... I have to travel to the mainland. This is a cost PATS [Patient Assisted Travel Scheme] does not cover, it is all on me. Often the appointment time excludes same day ferry travel ... and I am obliged to get overnight accommodation. The cost of endodontic care is therefore not only the cost of the endodontist ...

These are costs and stress not borne by mainlanders.

The sparsely populated nature of remote areas means that it is often costly for government and businesses to directly or continuously provide a range of services, especially when those services are highly specialised.⁶ In many cases, the onus is on individuals to travel to major cities to seek various services at their own expense (although there are State and Territory Government programs that assist with this travel, as presented in chapter 3).

Health and emergency services

Many remote residents face significant difficulties in accessing health and emergency services.

In general, remote residents lack immediate access to primary health services. For almost every medical service, there are significantly fewer practitioners per person in *remote areas* (AIHW 2018a). However, general practitioners (GPs) are an exception — there are more full-time equivalent (FTE) GPs per person in *remote areas*.⁷ Thin markets for medical services in remote areas mean that a generalised medical professional can more cost-effectively provide a broad range of health services (AIHW 2017). Even though there are more FTE GPs per person, residents still face access issues because they must travel long distances to see a GP face-to-face. The Commission also heard during its regional visits that, with growing specialisation in medical services, many GPs no longer perform the range of services (such as appendix removal) that would previously have been standard in remote practices.

Large distances are especially problematic in emergencies, when response times are crucial to outcomes. Response times in *remote areas* can be several times higher than in major cities (table 2.6).

⁶ The higher per-person cost of delivering government services in *remote Australia* is reflected in the distribution of grants to states and territories under Australia's horizontal fiscal equalisation framework (discussed in chapter 3). States and territories with a larger proportion of residents in *remote areas* receive a proportionally larger share of GST revenue. It is then up to those state and territory governments to determine how they spend that revenue, including how much they allocate to providing services to people in remote parts of those states or territories rather than other priorities.

⁷ The National Rural Health Alliance (2013) has raised concerns about the accuracy of remote area medical service staff data, particularly in relation to discrepancies in GP numbers.

Table 2.6 Response time in minutes to a structural fire
90th percentile wait time in minutes^a

<i>Remoteness</i>	<i>NSW</i>	<i>VIC</i>	<i>QLD</i>	<i>WA</i>	<i>SA</i>	<i>TAS</i>	<i>ACT</i>	<i>NT</i>
Major cities	9.5	9.2	11.7	11.2	11.1	n/a	11.3	na
Inner regional	16.5	14.8	13.2	20.9	31.3	14.5	na	na
Outer regional	21.0	18.7	13.4	21.6	22.9	24.4	na	15.2
Remote	19.6	n/a	16.9	28.0	19.7	19.7	na	16.7
Very remote	23.2	n/a	17.2	33.4	60.3	29.2	na	60.8

^a Refers to the time taken between the initial call out and when emergency fire services arrive at the site. The 90th percentile means that, for a given jurisdiction and remoteness category, 90 per cent of fires had a quicker response time than that provided, while 10 per cent were slower.

Source: SCRGSP (2019).

On the other hand, it does not appear that people in *remote areas* are particularly disadvantaged in terms of wait times for specialist health service appointments and procedures. For example, elective surgery and public dentistry wait times are similar for both remote and non-remote residents — but at least part of this similarity is because many of these services are simply unavailable in *remote areas*. Residents must enter the same medical service queues as urban users (SCRGSP 2018).

Consequently, for specialist care, residents instead feel the impact of remoteness most through the travel costs and time spent travelling. In some areas, patients must wait for a travelling specialist to visit their community or one nearby. Others must move to an area that can provide their health care services consistently. In some areas, there are kidney dialysis communities (including in Alice Springs, Darwin and Mt Isa) made up of former residents of surrounding towns (Wilson 2016). In other areas, residents must regularly travel to major urban areas for treatment.

Some remote communities have devised ways to avoid these problems. For example, some have trained general nurses to conduct procedures with direction from a telehealth professional.⁸ In Wilcannia, the local nurse performs x-rays on patients and emails the images to a radiographer and doctor, who send back a diagnosis and treatment plan. Technological progress may reduce the cost of equipment and enable more medical services to be provided remotely. However, as seen in box 2.7, this does not mean that remote residents will be able to avoid all healthcare-related travel.

While many residents of remote Australia are thus likely to experience some disadvantages in accessing health services, the extent of these disadvantages will of course vary from place to place, as well as between Indigenous and non-Indigenous residents. Indeed, significant expenditure is directed towards the Indigenous health system, with Aboriginal Community

⁸ A telehealth professional is a medical practitioner located in one area who provides medical services in another through videoconferencing or over the phone.

Controlled Health Services in communities like Katherine and Maningrida providing a range of free primary health services to the local Indigenous population.

Education

Difficulties in accessing education follow similar patterns to health services. These difficulties not only have implications for educational outcomes, as discussed in section 2.2, but also affect household decisions about where to live.

Primary school education is accessible for most remote area residents, but the breadth of choice between public, private, denominational or specialised schools is generally not available. Families are faced with few alternatives if they have concerns about teaching standards or bullying, or have children with specialised needs. In most urban areas, moving a child to an alternative school might mean a detour of a kilometre down the road, but in remote areas this can be hundreds (Lamb et al. 2015).

Access to education becomes more challenging as children progress through secondary education, especially in the latter years of high school where the need for teachers with knowledge in specialised subjects becomes greater. Further, attracting and retaining qualified staff is a challenge in itself (box 2.7). The upshot is that many subjects are simply unavailable in remote areas, requiring students to attend boarding schools or the family to relocate. For university education, students almost always relocate (PC 2019a).

In recognition of these difficulties, remote education providers have attempted to offer alternatives to traditional class-based learning. Distance education has a long history in Australia, and, in recent years, the tools available to deliver education remotely have improved substantially. Modern technologies, such as videoconferencing and downloadable resources, have been integrated into the schooling system to make distance education more accessible.

Likewise, tertiary education providers have been introducing new forms of education delivery which allow for varying degrees of remote area access. These include pre-recorded lectures, online peer-to-peer services, the ability to sit examinations remotely, and lecturers allocating more time to communicate directly with students (CQU 2019; OUA 2019).

However, it is still common for many remote area residents and families to relocate or enter into boarding school arrangements for a variety of reasons including quality, availability of certain courses, choice and social reasons.

Box 2.7 **Some lessons from remote South Australia**

The Commission gave particular attention to the challenges of providing and accessing education during its April 2019 visit to Woomera, Roxby Downs and Andamooka in remote South Australia.

Schooling

Some schools are very small: at the time of the Commission's visit, Andamooka Primary had 29 students while the Woomera Area School had 14. Woomera has seven staff, including the principal and three teachers. Small school size can limit subject offerings or mean that teachers must provide joint lessons for children of different ages, although face-to-face teaching can be augmented with Open Access facilities.

By contrast, Roxby Downs Area School had about 400 students in primary schooling and 200 in secondary, along with over 50 staff. There is also a denominational school in Roxby Downs. Secondary-aged students in Andamooka catch the bus each day to Roxby Downs.

Alternatively, secondary school students can board at larger schools in Adelaide or on the Spencer Gulf; some families leave the area altogether when their children reach high school age. The population in the area is very transient; we heard that, as children's friends leave, their families may be prompted to move or send them to board, too.

Some parents living on remote stations who cannot realistically access a school must hire a governess (at great expense) during their children's early years, or play that role themselves, and may ultimately need to send the children to boarding school.

Higher education

Higher education provision north of the Spencer Gulf is limited. The TAFE at Roxby Downs is based on the Area School campus and provides courses for BHP and limited courses for the school. Further south, students can choose between TAFE study, the five courses offered by UniSA Whyalla, or distance education supported by the Spencer Gulf UniHub program.

The Productivity Commission has previously found that students from *regional* or *remote* areas 'are less likely to attend [university] than similarly capable metropolitan students' (PC 2019a, p. 48). The educators we spoke to suggested several reasons for this, including the expense of supporting a student in Adelaide: paying bills in two places and covering the cost of transport. We heard that many parents could not get financial assistance because of their incomes or employment status. What's more, we were told that many young people could expect to earn well over \$100 000 annually on the Olympic Dam mine, which would make higher education look less attractive.

Staffing

Teacher attraction and retention is an ongoing challenge in remote areas, and staff turnover can be high: of the 54 positions at Roxby's Area School, 10 to 15 turn over each year. Many of the teachers are recent graduates. We heard that young teachers may move for training or for early access to leadership positions, but often do not stay long term.

Leadership teams can sometimes struggle to attract suitable candidates for teaching positions: the principal at Roxby Downs told us that she had run the recruitment process for a Spanish and Design and Technology teacher four times. Having more teachers at Andamooka would enable the school to separately teach more year groups, while in Roxby Downs it would enable more specialist subjects. It would also ensure that classes could be covered when teachers are away as there are only three relief teachers in the Roxby, Woomera and Andamooka communities.

Retail and other services

There is a strong link between a community's population and its ability to provide services locally; sports, entertainment, and food and beverage venues generally come and go as population rises or declines. Losing these services affects the social lives and community of remote areas more broadly, as they facilitate social interaction amongst residents (2017b).

As discussed in section 2.1, fewer Australians live in small towns than in the past, which has reduced the local availability of many of these services. However, improvements in transport have also made it easier for residents to travel to access services farther away, which has led to a rise in regional service centres: larger towns that do possess those services and provide an outlet for residents from surrounding towns (BITRE 2014). The internet has also provided new ways to engage with others, to consume entertainment and (in an age of improved transport) to purchase goods online and get them delivered (where freight is available and costs are not prohibitive). Moreover, technological advancement has enabled small electrocardiogram devices to be provided to vulnerable patients in remote areas to detect cardiac abnormalities, allowing the Royal Flying Doctor Service to determine the seriousness of a condition over the internet.

That said, there are still many services available in more populated areas that are not always immediately accessible to remote residents. These include some services that did not exist in the 1940s but have since become available and, in some cases, are increasingly seen as almost essential. In telecommunications, for example, the Commission estimated in 2017 that up to 90 000 premises — largely within the National Broadband Network satellite footprint (areas that are unable to receive cable networks) — had inadequate mobile coverage (PC 2017a). Along similar lines, only 53 per cent of Indigenous Australians in *remote areas* accessed the internet in 2014-15, compared with 86 per cent of Indigenous Australians in *non-remote areas* (ABS 2016b).

Transport

One of the most significant complaints voiced by regional and remote residents relates to the prices and availability of air travel. The unique conditions of regional markets generate significant challenges for both customers and suppliers.

For remote residents, the cost of domestic air travel frequently exceeds that of international flights, with alternatives generally being several hours (or even days) of travel by car. In some circumstances, like when a loved one is ill or when roads are cut off by flooding, there may be virtually no option other than to fly.

Mr Keith Cox of Mount Isa shared his personal experience with the Rural and Regional Affairs and Transport References Committee inquiry into regional airfares (RRATRC 2019, p. 35).

My wife and I had to make an emergency rush to Bundaberg late last March after being advised by the Doctor in ICU that her father was in a critical condition, possibly unlikely to last the next

day or so. We were fortunate that there were seats available to get us to Bundaberg by that evening but at the cost of \$2200 one way for the pair of us.

Declining populations have contributed to the discontinuation of some routes, such as the former REX service from Cobar to Dubbo.

In those locations and others without access to air travel, residents must look for alternatives. These include relying on private transport or bus services, often over very long distances, or on roads of poor quality (some of which become impassable for lengthy periods due to flooding). The Commission heard when visiting Andamooka that the coach service to Port Augusta no longer runs. To ensure that the elderly residents of the town are not completely marooned, the community progress association now runs a weekly bus service to Roxby Downs and a bus trip to Port Augusta every four to six weeks, primarily to enable residents to see medical specialists.

Challenges with personal transport also apply to freight services. With the historical decline of rail transport to some towns, road freight is now the dominant supplier to most remote areas — although along parts of the Northern Territory coastline, including Maningrida, road access is so unreliable that goods are brought in by barge. For consumers, freight is an extra impost on the price of all goods brought in. Compounding this cost, there may only be one freight company that will service a given remote area, which may leave residents open to monopoly pricing.

Whether travelling for personal reasons or to move goods, sheer distance means that residents are left with few alternatives — especially if they do not own a car themselves.

The difficulties of doing business

The Commission's consultations revealed a range of difficulties that remote businesses face (box 2.8).

Costs of doing business

Much as costs of living are higher in the more remote parts of Australia, some costs of doing business are also higher. Many of these (such as fuel and freight) are much the same as they are for households.

Box 2.8 Experiences of remote area employers

Galvin's Plumbing Supplies (sub. 30, p. 1) highlighted the link between the high cost of living and higher costs of doing business in remote Western Australia and the Northern Territory.

Cost of Operating a Business is directly affected by the cost of living for an Employee, which as a direct result requires higher wages to retain good staff along with other incentives.

The Central Land Council (sub. 35, p. 6) provided examples of the additional salaries that needed to be paid to retain employees in central Australia.

On average the salaries paid were 25% higher in 2015 (when this analysis was last undertaken as part of EA negotiations) compared to a similar size entity in the same industry (before the last EA was negotiated), indicative of the salary premium that needs to be paid to attract and retain staff to remote Central Australia. Yet despite this premium staff turnover rates are increasing significantly.

King Island Council (sub. 75, p. 5) highlighted many of the additional costs incurred when trying to attract employees to fill labour shortages.

Beyond the cost of selecting a suitable candidate, attracting that candidate to relocate to a remote and rural community can incur yet more costs. Many of our Island's businesses pay above award rate to offset the higher costs of living; relocation costs are frequently covered by a business bringing new residents to the island for key roles; flights off the island for employees and their families are a reasonably common employee benefit; and the low availability of housing means that many employers will also provide subsidised housing for their senior staff, either as a part of the ongoing remuneration package or as a temporary measure to facilitate the employee's commencement.

Roxby Council CEO, Roy Blight, said that local employers are sometimes 'a stepping stone' and 'a transit station' for young people in particular, noting that:

... many of them obtain work in town gaining experience and developing networks before taking up jobs at the nearby Olympic Dam mine. This is problematic as employers invest in new employees through extensive induction and training only to see them suddenly move on to the resources operation where the pay rates are more attractive. (pers. comm., 22 August 2019)

And Burketown business owner Tonya Murray (sub. 50, p. 1) explained the challenges of operating within a small local market.

As the only fuel supplier in the Community we are heavily relied upon to provide this service. Last year we had an issue with our fuel operating system that affected us and our ability to serve customers for over 3 weeks. This cost our business greatly in lost sales, exhausted staff time in attempts to repair the problem and over \$7,000 to pay for experts to come and eventually repair the problem which was relatively minor in the end. The majority of this cost was due to the 2 days of travel for 1 technician to drive approximately 2500km (Round trip) and costs associated with being away from home.

Labour shortages

Even in towns with high unemployment, there are often labour shortages. Without local education facilities to develop local tradespeople and other skilled workers, businesses and government generally have to rely on external hires to fill skilled vacancies.

Businesses can sometimes struggle to hire reliable workers who they can retain for significant periods of time and who are productive in their employment. During the Commission's regional visits, two main reasons for this shortage were suggested.

-
- Employees who are hired from outside the community, enticed by higher remuneration, later decide that they are ill-suited to the isolation and weather of remote areas and quit. Similarly, many workers (particularly younger workers) can see employment in a remote area as a short-term ‘get rich quick scheme’, or a stepping stone for career advancement, and so do not put down roots in the communities they are working in.
 - The Northern Territory, which has the highest proportion of ‘remote’ residents of all states and territories, experiences population turnover of 17 per cent each year (Northern Territory Government 2019b).
 - In many remote areas, socioeconomic factors affect employee performance and the reliability of work attendance. These factors include poor health, lower levels of education, lower literacy levels, and higher rates of criminal behaviour (Stephen 2011).

High non-wage costs

Additionally, although businesses bear higher costs by offering higher wages, these wages alone are often not enough to attract or retain workers. Many businesses also provide non-monetary benefits to entice employees, including housing or vehicles suited for unsealed roads. Part of the reasoning is that, especially for housing, there are often thin or non-existent markets in remote areas. (The provision of certain non-monetary benefits in remote areas is discussed in chapter 7.)

Employers also often provide other non-monetary benefits, which may include subsidised private health care, gyms, holiday travel, and childcare. Indeed, the National Farmers Federation (sub. 85, p. 6) notes:

There are some professions, nursing for example or mining, that provide a range of benefits to encourage people to take up and remain in the profession. This can include above average wages, generous overtime and penalty rates, health and or life insurance premium payments, fitness centre discounts, or even free cell phones.

Employers that the Commission met with said that they offered incentive packages because they found high wages alone were often not enough to attract and retain skilled workers to remote areas. These incentives were often targeted not only at the employees themselves but also at their families, in recognition that location and employment decisions are often household (rather than individual) decisions.

Thin markets

While outback businesses may benefit from low levels of competition in industries that would be highly competitive in cities, they face the challenge of finding enough customers in the sparsely populated areas to be viable.

For many service industries, dwindling and dispersed remote populations have shrunk the market base for businesses to operate in. Regional air services on many routes have low profit margins despite their high prices, and in some places population declines have led to

routes being discontinued. Qantas recently described how these changes affect the viability of air routes to particular areas:

Due to smaller populations in these towns, economically sustainable demand often does not exist to support the capacity deployed across a week, frequently resulting in only small percentages of capacity being met (e.g. 20 to 30 per cent). This makes it difficult to cover the cost of the return flight, warranting prices proportionally higher overall, particularly on the higher demand leg. (RRATRC 2019)

Other service businesses (such as retail, food services and entertainment businesses) can also struggle to access markets large enough to sustain them. This may be true even in some areas that are otherwise thriving, but where FIFO and DIDO workforce practices are becoming more prominent. Kalgoorlie-Boulder resident Chris Fyson (sub. 53, p. 2) observed that, because of the FIFO model:

... employees spend no money or time in the community nearest to their employment. Result, no expenditure in the local community so shops and restaurants become unsustainable and close, no family of the employees residing in the community so the property market suffers with high vacancy, sporting clubs and other organisations are starved of members so communities struggle to raise a football or cricket team, volunteer organisations have no volunteers, school numbers drop and communities steadily become unsustainable.

With workers spending less time living in the remote areas where they work, the quantity of services required by the community is lower than it otherwise would be.

Climate and weather events

Parts of remote Australia are subject to harsh climatic conditions.

In the tropical remote north of Australia, cyclones and monsoonal rain are a feature of wet seasons. These can be disruptive and destructive — most infamously in 1974 when Cyclone Tracy destroyed 80 per cent of buildings in Darwin, claiming 71 lives and causing \$800 million in damage (Australian Geographic 2011). More recently, flooding in Far North Queensland caused major damage, including damage to some remote pastoral communities (Kohlbacher 2019). And in some areas, seasonal flooding regularly inundates roads for large parts of the year, with communities such as Nhulunbuy in East Arnhem Land having impaired road access during the wet season months of November to April (NLC nd).

Heat stress is a major issue in inland Australia. Nationally, heat stress kills more people than any other weather event, and deaths associated with this are more prevalent in remote areas where the effects of harsher climate are compounded by less timely access to medical services (Smith 2018). In many of the same inland regions, temperatures at night can drop below freezing.

Tasmania lies in the ‘roaring forties’; this strong band of westerly winds is historically famous for facilitating the fast travel of sailing ships, but the intensity of the wind is also known to disrupt air travel and freight services, and damage property (ABC 2016).

Today, despite improvements in building designs, meteorology and warning systems, these types of weather events still pose threats and costs to people and their livelihoods. However, fewer people are exposed to harsh weather conditions as part of their jobs in traditionally ‘outdoor’ industries such as mining and agriculture.

- In agriculture, livestock are increasingly counted through drone surveillance, water tables can be read via installed equipment, and droving on horseback has been replaced by modern forms of transportation.
- In mining, exploration utilises satellite and geophysical imaging, driverless trucks and trains are increasingly being adopted, and more employees fly in for work rather than living near the mines.

Further, many consumer goods that ameliorate adverse climate conditions are more widely available for consumers, including air conditioning, insulation and refrigeration. These goods are also becoming cheaper over time (figure 2.8). Moreover, unlike non-durable goods (such as fresh fruit), they can typically be purchased in a single trip to regional service centres (or ordered online).

However, using modern technologies to reduce exposure to climate also means incurring running costs. People living in locations with hot and/or humid weather incur more costs by running air conditioners for larger parts of the year. This is reflected in electricity consumption in the hot and humid climate zone in Australia’s north, where people consume, on average, 24 per cent more electricity than the country as a whole (ABS 2013).

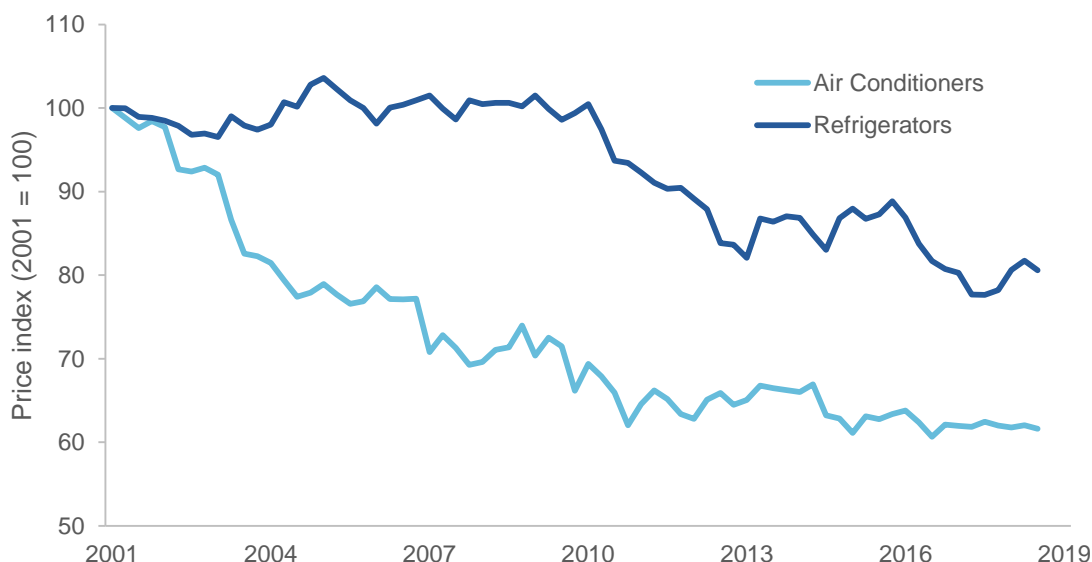
Residents also bear the costs of ensuring that goods and services are suitable for remote areas. Following Cyclone Tracy, new housing in cyclone-prone areas has been required to meet higher building standards, and this has added to the cost of construction (Nous Group 2019). Similarly, elevated insurance costs reflect the risks to property in many remote areas (ACCC 2018a).

However, harsh or unpleasant weather conditions are not exclusive to remote areas. Energy consumption is often higher in areas that are predominantly non-remote. In Victoria, Tasmania and the ACT, households spend a larger share of income on energy than households in northern climates; this presumably reflects higher gas use for heating during winters. In parts of these areas, temperatures can remain near or below zero degrees for much of the day (ABS 2013).

The risk of bushfires is also greater in regional areas, particularly in Australia’s south east, where much of Australia’s densest bushland is located and where the Bureau of Meteorology notes a long-term trend of increasing temperatures and decreased rainfall (BOM 2018).

Figure 2.8 Prices of selected household appliances

Unweighted price index from Australian capital cities



Source: ABS (2019c).

2.4 Why do people live in remote areas?

Understanding what motivates people's decisions to live in remote areas is important for assessing the merits and impacts of government policies that provide special support to people in those areas. Study participants have outlined their reasons for living in remote Australia, some of which are summarised in box 2.9.

Remote Australia offers ways of life that are clearly different from those attainable in urban and regional centres. While people living in remote areas can face difficult circumstances, the lifestyle appeals to those who prefer to live far from cities. Many that are born and bred in these areas hold strong personal or cultural connections to them.

The social and cultural connections that tie people to place are important, as are personal preferences for the unique aspects of life in remote areas. Employment and financial considerations are, of course, also relevant. While (again) there are no universal truths to explain why Australians live where they do, this section covers some of the more common reasons.

Box 2.9 **There are many reasons why people live in remote Australia**

On the Commission's regional visits, people highlighted a number of reasons for why they preferred to live in remote Australia. Lifestyle was one; participants in regional Queensland favoured the short commutes (compared with cities) allowing them to spend more time with their families. Others preferred the natural environment, including the fishing opportunities in northern Australia.

The Indigenous Reference Group to the Ministerial Forum on Northern Development (sub. 87, p. 1) explained why many Indigenous Australians reside in remote parts of northern Australia.

Aboriginal and Torres Strait Islander people have lived in remote Northern Australia for approximately 60,000 years. ... Primarily as a result of continued practice of traditional custom and lore which is intrinsically linked to living and working on traditional lands, as well as more recent recognition of Indigenous legal rights in extensive land and sea estate, the Indigenous population across Northern Australia is a relatively permanent population.

Burketown resident Cheryl Portch (sub. 39, p. 2) outlined her reason.

My children live in Melbourne and ask why would I live in such a remote area as we don't see each other as often as we like ... **My simple answer is it's my home.** [emphasis in original]

Residents of Roxby Downs noted that people generally move to Roxby for work, and that it is 'not a town you can afford to live in if you're unemployed'. Council representatives stated that the town 'ebbs and flows with the [Olympic] Dam'.

Kalgoorlie-Boulder resident James Potter (sub. 25, p. 2) noted that he chose to remain in his region despite the cost.

My biggest issue is there is no incentive to live locally rather than do fly in fly out. Financially I would be a lot better off doing FIFO but I choose to put family and regional living first.

Similarly, representatives from the Defence Families Association in Darwin noted that many families of Defence personnel will relocate even to remote postings to avoid geographically dividing the family. A recent study conducted as part of the Transition and Wellbeing Research Programme showed about 60 per cent of Australian Defence Force (ADF) members had only lived in their current home for five years or less, compared with 43 per cent among the general public. It also found that children of serving ADF members moved schools more frequently than civilian children (Smart, Muir and Daraganova 2018).

The pace and space of remote Australia

Although not without its own forms of colour and movement, a country way of life is generally seen as more laid back, less frenetic and healthier than living 'cheek by jowl' in cities. Life in remote places has its own pace and rhythms that suit some people. Congestion, a feature of every major city in Australia, is virtually non-existent. The lack of congestion and sparse populations also contribute to better air quality and lower levels of pollution in many places — with the notable exception of certain mining towns (Hermant and Clark 2018).

The physical landscapes of remote Australia can also have their own, often rugged, appeal. Some remote places are sites of great natural beauty: the Kimberley, Lord Howe Island and Strahan (Tasmania), for example. Parts of northern Australia are tropical and lush, and

Karumba in the Shire of Carpentaria is a major drawcard for anglers from all over Australia. In much of central Australia, though, all that most eyes see are endless miles of parched earth or scrub. Although not to most people's taste as a backdrop for long-term living, this 'wide open space' is what some people are drawn to, appreciate, and feel at home in.

Employment opportunities and high remuneration

Some people live in remote locations because the types of jobs they prefer are only available there, particularly in pastoral agriculture and mining employment. Other people, particularly those working in not-for-profits and government services, may be drawn to work in remote areas for more altruistic reasons, as parts of remote Australia are home to some of the most disadvantaged people in the country. For others, including teachers and police, a stint in a remote location may be a stepping stone to promotion; employees at lower levels may be presented with greater responsibility, or a wider range of tasks, than they would be offered in an urban location.

Perhaps the biggest attraction for those without a history of living in remote areas are the high wage and non-wage benefits available for many occupations. Relocating to a remote area can be an opportunity to earn remuneration well above the going rates elsewhere (box 2.10).

Additionally, employment prospects can be better, particularly for in-demand professions in which vacancy rates may far exceed those in metropolitan areas (RAI 2019). These opportunities in remote areas can encourage more people to move there, as families of the income earner may join them.

Box 2.10 High remuneration in remote Australia

Analysis of ATO data shows a wage and salary differential in both low- and high-skill occupations that favours working in remote zones (chapter 4). While labour force characteristics in remote Australia will affect these differentials, making it hard to isolate an implicit 'remoteness premium', the additional wage and non-wage benefits offered can be substantial. This is evident from the remote allowances and other benefits available for public sector employees.

- In New South Wales, teachers who relocate to a school in Bourke or Tibooburra (classified as *remote* and *very remote* by ABS, respectively) are eligible for incentives worth up to \$20 000 and \$30 000 respectively, as well as additional incentives relating to retention and experience that are worth between \$5000 and \$10 000 each annually (Teach NSW 2017).
- Employees in the Western Australian public service are paid annual district allowances of \$7436 and \$9299 in the Kimberley and Pilbara regions, respectively (WADMIRS 2019).
- The Australian Public Service Enterprise Award provides for district allowances for public servants that vary based on a locality's remoteness, population, temperatures and access to air services. Rates range from \$1044 to \$6147 for singles and \$2077 to \$9944 for employees with dependants (FWC 2015).
- Annual remote allowances for ADF (Australian Defence Force) personnel (without dependants) range from \$960 to \$7830 per year, depending on the 'remoteness grading' of the location and whether they are residing on base ('living in') or living out (Department of Defence 2019c, 2019a). Defence personnel in remote areas also receive additional leave to enable access to facilities not available in remote areas (such as medical and dental services).

Australian Defence Force district allowance rates

Grade	Examples of eligible locations	Rate of allowance (\$ a year)		
		Living in	Living out (without dependants)	Living out (with dependants)
A	Broken Hill (NSW) Townsville (QLD)	960	1 370	2 740
B	Darwin (NT)	2 735	3 910	7 820
C	Alice Springs (NT) Mount Isa (QLD)	3 425	4 890	9 780
D	Katherine (NT)	4 795	6 850	13 700
E	Broome (WA) Nhulunbuy (NT) Weipa (QLD) Woomera (SA)	5 480	7 830	15 660

Private sector remuneration is generally not so transparent, but many employers offer generous packages for employees in remote areas. For example, crane and transport operators working for Pilbara Iron (a subsidiary of Rio Tinto) receive allowances to compensate for '[t]he isolation, lack of services and additional costs associated with living at a remote location'. These allowances amount to 30 per cent of base salary in Dampier, Wickham and Karratha, and rise to 35 per cent in Tom Price, Paraburdoo and Pannawonica (AWU 2017). As noted earlier, the NFF (sub. 85) submitted that, for some professions, employers in remote areas will provide not only above-average wages but also generous overtime, health or life insurance premium payments and other lifestyle benefits. Chapter 7 also covers certain goods and services provided to employees in remote areas, including employer-provided housing.

Community and ties to place

A sentiment often expressed on the Commission's visits was that because remote settlements are small, their residents have a strong sense of community. Census data similarly indicate that rates of volunteering are significantly higher among residents living in *remote areas*, with a remote resident 42 per cent more likely to volunteer than a resident in a major city; many regional areas operate volunteer emergency response schemes. That said, a significant and sustained shrinking of population in some regions has led to a diminution of local service and community activities (PC 2017b, p. 115).

Social and cultural connections can anchor people to a particular place. People who have lived in remote areas for long periods of their lives, and who may have a family history in the area stretching over generations, usually have a fierce sense of belonging. As one participant said, the reason she lives in Burketown is simply (and self-evidently) that it is her home (box 2.9).

One caveat is that some remote communities experience high population turnover, particularly among young people and non-Indigenous workers. For instance, Roxby Council CEO Roy Blight estimated population turnover of about 20 per cent each year. Likewise, in the Northern Territory as a whole, 17 per cent of the population leaves the Territory each year (Northern Territory Government 2019b). Population turnover may undermine the social capital of residents within a community. A recent article (ABC 2018) looked into the motivations of why people move away from the Northern Territory, quoting a resident as saying:

I've had so many friends leave Darwin ... It's hard to constantly re-adjust your social centre, make a new group of friends ... It's one of the most exciting things about Darwin but after a while you really miss the friends who know you.

Land and housing markets in remote areas can be small and lack liquidity. Without the ability to sell their property, even land-owning residents may not be able to move to new areas with better opportunities or amenities. Older residents could be especially discouraged from retraining for a different profession in a less remote area because their skills may be more suited to remote-area industries and they would have relatively lower lifetime returns to investing in education.

Indigenous attachment to country

More than a quarter of *remote* Australia's population is Indigenous. The remote Indigenous population is diverse, consisting of more than a hundred different nations and language groups. Indigenous Australians' lifestyles also vary — from living and working in internationally connected mining towns such as Port Hedland and Tom Price, to living traditional lifestyles on outstations in Arnhem Land.

Many Indigenous Australians value being able to maintain cultural and social practices, which they see as intrinsically linked to their ability to live and work on traditional lands with members of their respective communities. To underscore this difference, 82 per cent of

Indigenous Australians in *remote areas* participated in cultural activities, such as ceremonies, compared with 57 per cent of Indigenous Australians outside of *remote areas* in 2014-15. More than half reported speaking an Australian Indigenous language, compared with 8 per cent of those in *non-remote areas*. Indigenous Australians living in *remote areas* are also more than twice as likely to generate income from cultural activities than those living in *non-remote areas* (ABS 2016b).

This attachment to country means that, even with economic ebbs and flows and the various disadvantages that come with living in remote areas, there is a strong anchor for many Indigenous Australians to live in the same place as the generations preceding them. An increasing number hold land rights, including native title rights, over their homelands (Altman and Markham 2015). As discussed in section 2.2, many Indigenous Australians in remote Australia are less mobile and more tied to place than their urban counterparts.

DRAFT FINDING 2.4

Although life in remote Australia has a unique set of challenges, many Australians choose to live there because of the pace and quality of remote life, or because of close personal or cultural attachments to places or to communities. Others move to remote areas in pursuit of economic opportunity.

2.5 Summary and policy implications

Life in remote Australia is beset with challenge and yet full of opportunity. Difficulties in accessing services, dealing with the high cost of living (in some areas) and coping with the ‘tyranny of distance’ are stark for many residents. But most residents are there by choice — often because of personal attachment to an area, or in pursuit of economic opportunity.

Economic and technological changes mean the boundaries of ‘remote Australia’ are not static; remoteness changes over time as some towns grow and others decline. This is likely to continue into the future. Similarly, the economic circumstances of towns in remote Australia are not identical. Many areas face unique challenges that are not amenable to top-down policy. Often, their issues are different altogether from those faced by wider ‘regional Australia’.

Most people who reside in remote Australia are better off (at least in material terms) than they were in times past. But whether they are better off *relative* to people in cities is less clear; the pace and extent of development in cities has not been matched by all of remote Australia.

Uneven economic development across Australia does not, in itself, justify a national policy intervention. As the Commission has noted previously in its report on *Transitioning Regional Economies* (2017b), governments should not generally try to prop up particular

areas; instead, they should focus on identifying and removing barriers that prevent individuals and households from accessing opportunities wherever they present themselves.

In some cases, however, there are compelling reasons why people cannot move: some people are simply not mobile, or other policy objectives (such as supporting Indigenous Australians living on country) may represent a higher priority for governments. In these cases, there may be a need for governments to directly address the disadvantages of life in more remote areas, rather than facilitating mobility. Chapter 3 outlines some of the existing policies aimed at addressing these issues.

3 The broader policy context

Key points

- Australian, State and Territory governments have in place a range of measures intended to provide assistance to individuals, businesses and communities in regional and remote Australia.
- All levels of government have devoted significant resources to promoting the economic development of regional and remote communities.
 - For example, between 2008 and 2017, the Western Australian Government's Royalties for Regions program directed over \$6.9 billion of the State's mining and onshore petroleum royalties into over 3700 infrastructure and community projects.
- Australia's system of horizontal fiscal equalisation — under which the Australian Government distributes goods and services tax revenue with the aim of enabling each State and Territory government to provide its residents with a similar level of public services — takes into account higher per capita expenditure on service delivery in regional and remote Australia.
- In addition, across all levels of government there are a range of targeted programs and payments designed to facilitate access to infrastructure and services in remote areas. For example:
 - State and Territory governments provide distance education to students who cannot attend mainstream schooling
 - the Queensland Government's Local Fare Scheme subsidises return airfares to Cairns for residents of Cape York, the Torres Strait Islands and some Gulf of Carpentaria communities.
- Governments also provide assistance to industries with a prominent presence in regional and remote Australia.
 - In 2017-18, the Australian Government provided subsidies and tax concessions worth over \$2.3 billion to the mining and primary production industries.
 - The Victorian Government provides an exemption from land tax for land used primarily for primary production.
- Governments are also involved in the development and administration of policies affecting Indigenous Australians. Because a large proportion of Indigenous Australians live outside of major cities, it is common for such policies and programs to have a regional or remote dimension.
 - For example, Australian, State and Territory governments have policies to reduce significant overcrowding, poor housing conditions and housing shortages in remote Indigenous communities.
- In this context, the remote area tax concessions and payments are a very small subset of measures that support individuals, businesses and communities in, and facilitate development of, regional and remote Australia.

To help assess the remote area tax concessions and payments, this chapter places them into their broader policy context, which encompasses a range of government measures designed to assist individuals, businesses and communities in regional and remote Australia.

The chapter categorises and describes the different types of Australian, State, Territory and local government measures that either directly target, or significantly affect, individuals and businesses in regional and remote areas. These categories include measures that seek to:

- promote the economic development of regional and remote communities (section 3.1)
- alleviate the disadvantages of living in regional and remote Australia (section 3.2)
- provide assistance to industries operating in regional and remote Australia (section 3.3)
- provide assistance to Indigenous Australians in remote communities (section 3.4).

Categorising measures in this way aids in identifying and delineating policy objectives relating to regional and remote Australia. As some measures seek to achieve more than one objective, however, the use of a specific measure to illustrate how governments pursue a given objective does not mean the measure does not serve other functions.

State and Territory governments, with support from local governments, have primary responsibility for regional development and the delivery of key services in their jurisdictions. That said, the Australian Government also has a significant role both in regional development and in funding service delivery. State, Territory and Australian governments all play a role in Indigenous policy.

The chapter is not intended to be a comprehensive stocktake of measures affecting regional and remote Australia, or an assessment of their relative merits.

3.1 Regional development policy

Australia is one of the most urbanised countries in the world but has long supported individuals, businesses and communities, and promoted economic development, in regional and remote areas. One early example is the Goldfields Water Supply Scheme, commissioned in the midst of a gold rush by the Western Australian Government to supply water from Perth to communities in Western Australia's Eastern Goldfields, particularly Coolgardie and Kalgoorlie. A controversial use of government resources in its time, it was completed in 1903 and is still relied on today (Western Australian Museum nd).

In a more contemporary setting, debates about the appropriate role of government in promoting regional development have occurred in the context of the Australian Government's *Our North, Our Future: White Paper on Developing Northern Australia*. Some stakeholders see major untapped economic opportunities in Australia's north and a

role for governments to develop this potential. For example, the Indigenous Reference Group to the Ministerial Forum on Northern Development (sub. 87, p. 7) argued that:

The existence of the Northern Australia Agenda and the extent of its support strongly indicates relative consensus that the economic development of Northern Australia is in the national interest. This, in turn, implies market failure that is the result of the high capital and operating cost structures that pertain to businesses operating in Northern Australia, and for which policy intervention is justified.

Other stakeholders are more sceptical. The Grattan Institute, for instance, suggests that policies aimed at developing the regions often fall short because governments cannot ‘push economic water uphill’ (Daley et al. 2019, p. 50). This view is broadly acknowledged in the White Paper itself:

Governments’ role is to create successful business environments, not successful businesses. This is best achieved through prudent economic policies, the right infrastructure to get things moving, regulation that minimises costs on business, a workforce with the right skills, and basic research necessary for business to identify opportunities in the north. (Australian Government 2015, p. 2)

All tiers of government are involved in regional development planning

Australian, State, Territory and local governments are all involved in developing strategic plans for regional development. For example:

- many local governments across Australia prepare strategic plans for their communities, in accordance with State and Territory legislative requirements. In New South Wales, local governments are required to prepare a Community Strategic Plan covering at least 10 years (DPC NSW 2013, p. 5). Some councils form regional alliances, like the North West Queensland Regional Organisation of Councils, to better coordinate advocacy for their regions
- the Queensland Government provides funding to Remote Area Boards like the Mount Isa to Townsville Economic Development Zone. Remote Area Boards undertake planning and development activities in remote regions of Queensland, bringing together key economic development stakeholders to provide a voice on strategic issues (DSDMIP nd)
- the Australian Government, the Northern Territory Government and the Barkly Regional Council signed the Barkly Regional Deal on 13 April 2019. It is a 10-year, \$78.4 million commitment between the three levels of government, with the objective of improving the productivity and liveability of the Barkly region by stimulating economic growth and improving social outcomes (DITCRD 2019a). The Australian Government has also announced an Albury–Wodonga Regional Deal and is currently negotiating a Hinkler Regional Deal (DITCRD 2019b)
- the Australian Government developed the *Our North, Our Future: White Paper on Developing Northern Australia*, which was released in 2015 and outlines a policy

framework for developing the Northern Territory and the northern parts of Western Australia and Queensland (box 3.1).

Box 3.1 **White Paper on Developing Northern Australia**

In 2015, the Australian Government released the *Our North, Our Future: White Paper on Developing Northern Australia*. The White Paper outlines a policy framework for developing the Northern Territory and the northern regions of Western Australia and Queensland.

The 20-year plan for developing the north as outlined in the White Paper has six key elements.

- *A trade and investment gateway* – encouraging domestic and international investment in northern businesses, fostering business links with Papua New Guinea, East Timor and Indonesia and supporting biosecurity.
- *A more diversified northern economy* – developing tourism in northern Australia, investing in Australia's defence industry and encouraging more people to live and work in the north.
- *Indigenous entrepreneurship and business* – supporting Indigenous businesses and simplifying Indigenous land tenure arrangements in the north.
- *Infrastructure* – investing in improved infrastructure, setting up the Northern Australia Infrastructure Facility, upgrading remote airstrips, building and upgrading roads and partnering with all levels of government through City Deals.
- *Water infrastructure investment* – undertaking water infrastructure feasibility studies and water resource assessments.
- *Research and innovation* – funding tropical health research and a Cooperative Research Centre for Developing Northern Australia.

The Office of Northern Australia is taking the lead in implementing the northern Australia agenda. In its 2018 implementation report, it identified 38 of the 51 White Paper commitments as having being delivered.

Sources: Australian Government (2015); DIIS (2019); ONA (2018).

Government support for regional development includes significant funding for infrastructure

Australian, State and Territory government funding for regional development is often delivered through direct financing and concessional loans for regional infrastructure. For example:

- between 2008 and 2017, the Western Australian Government's Royalties for Regions program directed over \$6.9 billion of the State's mining and onshore petroleum royalties into over 3700 infrastructure and community projects (WA DRD 2017)
- the Australian Government's \$841.6 million Building Better Regions Fund provides funding for 'investment-ready' infrastructure projects as well as new or expanded events, strategic regional plans, or leadership and capability strengthening activities that provide economic and social benefits to the regions (McCormack and McKenzie 2019, p. 226)

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- the Australian Government's \$5 billion Northern Australia Infrastructure Facility, as outlined in the White Paper on Developing Northern Australia, provides concessional loans to infrastructure projects in northern Australia. As of 28 June 2019, it had approved a total of \$628 million in loans and conditionally approved a further \$635 million (NAIF 2019).

In some cases, the administration of regional development funds has come under criticism. For example, in a report on the Western Australian Government's Royalties for Regions program, the Western Australian Auditor-General noted that the program had six objectives and that not all projects funded through the program were clearly aligned with one of them (OAG 2014, p. 6).

Governments encourage people and businesses to move to regional and remote Australia

State and Territory governments use financial incentives to encourage people and businesses to move to regional and remote Australia. For example, in Victoria:

- regional Victorian employers pay a lower rate of payroll tax (2.425 per cent in 2019-20, decreasing in subsequent years) than those in Melbourne (4.85 per cent) (State Revenue Office Victoria nd)
- the First Home Owner Grant is more generous in regional Victoria (\$20 000) than in Melbourne (\$10 000) (Victorian Government 2019)
- new or expanding businesses in the 'Latrobe Valley Economic Growth Zone' (covering the Latrobe Valley, Baw Baw and Wellington Council areas) are reimbursed for fees and charges such as land transfer duty, planning application fees, licensing application fees, permit charges and environmental approval fees (Latrobe Valley Authority nd).

State and Territory governments employ a significant number of people in the regions. For example, in 2017, 24 per cent of Western Australian government employees were located in regional Western Australia (WA PSC 2017, p. 9). State and Territory government employees in remote locations are often paid district allowances. In Western Australia, for example, government officers in remote areas are paid district allowances of \$7436 and \$9299 per year in the Kimberley and Pilbara regions, respectively (DMIRS 2019).

The Australian Government has also developed policies to encourage people to relocate to regional and remote Australia to address labour and skill shortages. For example:

- Designated Area Migration Agreements allow employers in designated regions to sponsor skilled workers under the Temporary Skill Shortage visa and Employer Nomination Scheme visa programs for occupations which are not available under standard visa arrangements. Designated Area Migration Agreements have been agreed for the Northern Territory, the Great South Coast region of Victoria, South Australia and the Goldfields in Western Australia. A similar scheme in Canada has had some success in retaining migrants in regions once their visa conditions are met (Daley et al. 2019, p. 52).

-
- The Seasonal Worker Programme enables people from the Pacific region and East Timor to work in Australia on a short term basis in the agricultural and (in certain locations) accommodation and tourism industries (DESSFB 2019). This helps employers meet seasonal demand when there is not enough local labour.
 - The Working Holiday Maker Visa program allows visa holders to stay in Australia for longer if they work in certain regional and rural communities (DHA nd).
 - The Australian Government has been committed to decentralising the Australian Public Service (APS) since Canberra was designated Australia's capital in 1913 and public servants moved from Melbourne to Canberra (BITRE 2014, p. 165; Freeman nd). Since 2013, over 1000 positions have relocated to regional Australia (McCormack and McKenzie 2019, p. 11), representing about 0.7 per cent of APS staff as of December 2018. On that date, about 1.9 per cent of APS staff were in ordinary Zone B, 1.3 per cent in ordinary Zone A, 0.3 per cent in special areas and 96.5 per cent outside the zones (as defined for the purposes of the zone tax offset). The Northern Territory, Queensland and Western Australia had the highest proportions of APS staff in the zones (Commission estimates based on Australian Public Service Commission confidential data).

The use of place-based business tax concessions — generally designed to support regional development — is examined in chapter 5.

3.2 Assisting regional and remote communities

Regional and remote communities face some challenges as a result of their distance from major urban centres (chapter 2). These include cost-of-living pressures, poorer access to services and isolation.

Australian, State and Territory governments have implemented a range of measures to alleviate these disadvantages. These include:

- accounting for higher per capita expenditure on government service delivery in remote areas when calculating the distribution of goods and services tax (GST) revenue to State and Territory governments under the system of horizontal fiscal equalisation (HFE). Remoteness also factors into local government funding under the Australian Government's Financial Assistance Grant program.
- implementing targeted measures to improve access to particular services, like health and education
- building and maintaining communications and transport infrastructure.

Funding for State, Territory and local governments takes into account higher per capita expenditure on service delivery in remote areas

Australian Government funding accounts for about 45 per cent of State and Territory government revenue

In Australia, responsibility for funding and delivering public services is shared between the three tiers of government: Australian, State/Territory and local government. Generally speaking, however, State and Territory governments have primary responsibility for delivering most of the public services and infrastructure that people use day-to-day, such as schools, roads, public transport, hospitals, police and emergency services.

To provide these services, State and Territory governments need more funding than they generate from their own revenue sources (such as State land taxes) and are therefore reliant on funding from the Australian Government. This funding takes the form either of payments for specific purposes or general revenue assistance:

- Payments for specific purposes are paid to State and Territory governments in policy areas for which they have primary responsibility (box 3.2). These payments cover most areas of State, Territory and local government activity, including health, education, skills and workforce development, community services, housing, Indigenous affairs, infrastructure and the environment (Treasury 2019a, p. 13).
- General revenue assistance is paid to State and Territory governments without conditions, to spend according to their own budget priorities. The vast majority of general revenue assistance is paid through the distribution of GST revenue from the Australian Government to State and Territory governments under the system of HFE discussed below (Treasury 2019a, p. 74).

The Australian Government estimates that it will provide \$127 billion in funding to State and Territory governments in 2019-20, representing about 25 per cent of total Australian Government expenditure and 45 per cent of total State and Territory government revenue. Of this funding, about 46 per cent is made available through payments for specific purposes, 53 per cent is through the distribution of GST revenue and 1 per cent is from other general revenue assistance (Treasury 2019a, pp. 3–4).

Box 3.2 Australian Government payments for specific purposes

The Australian Government provides State and Territory governments with a range of payments for specific purposes:

- *National Specific Purpose Payments* – ongoing payments that are required to be spent in a particular sector, distributed between the States and Territories on an equal per capita basis
- *National Health Reform Funding* – ongoing payments for spending on hospitals and other public health activities managed by the States and Territories, provided on an activity basis
- *Quality Schools funding* – ongoing payments for spending on schooling, redistributed according to the Schooling Resource Standard; this includes a per student base amount with loadings for factors including location, size, low socioeconomic status students and Indigenous Australian students
- *National Housing and Homelessness funding* – ongoing payments to support access to affordable, safe and sustainable housing, which includes preventing and addressing homelessness
- *National Partnership Payments* – payments to support the delivery of specified outputs or projects, to facilitate reforms, or to reward those jurisdictions that deliver on nationally significant reforms.

Source: Treasury (2019a).

The Australian Government distributes GST revenue so that each State and Territory government can provide residents with a similar level of service

Under HFE, the Australian Government distributes GST revenue to State and Territory governments with the aim of equalising their ability to deliver public services. How State and Territory governments actually deliver services is a matter for them and depends on the policies that each government chooses to pursue. This means there is no guarantee that access to services will be equalised across locations, for example between Broken Hill and Broome, or Canberra and Melbourne.

GST revenue is distributed to the States and Territories on the basis of ‘relativities’ (that is, State and Territory shares of the pool of GST revenue relative to their share of the national population) recommended by the independent Commonwealth Grants Commission (CGC). In calculating the relativities, the CGC assesses each State and Territory’s fiscal capacity. ‘Fiscal capacity’ refers to a government’s ability to fund public services and infrastructure for its residents, assuming that it makes the average effort to raise revenue and operates at the average level of efficiency.

The CGC’s assessment of fiscal capacities involves considering factors outside the direct policy control of State and Territory governments – such as differences in geography, natural resources and demographics – which mean that they face different costs in providing services to their residents and have different degrees of capacity to raise their own revenues (Treasury 2019a, p. 81).

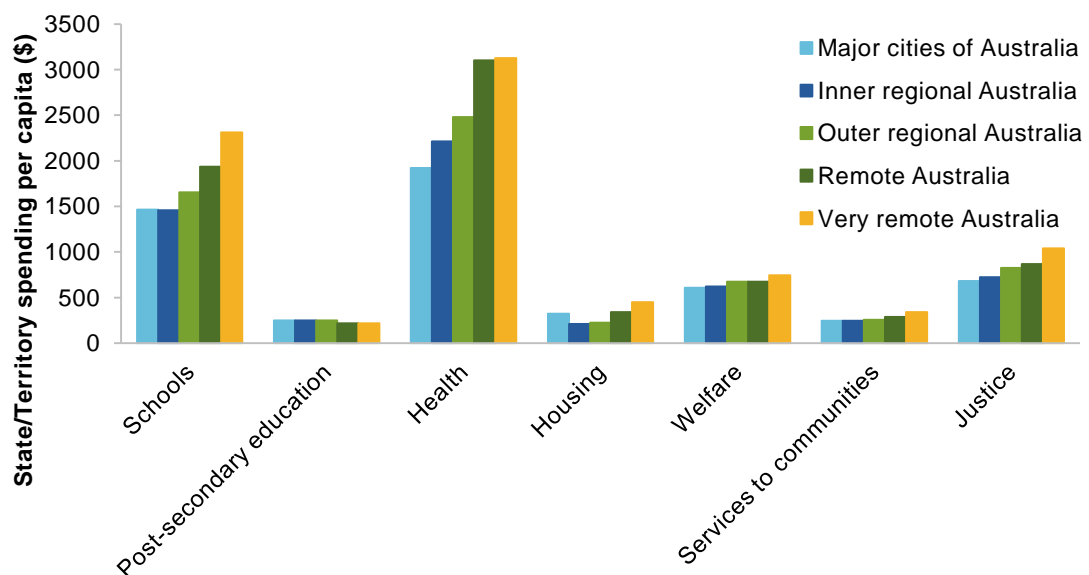
The distribution of GST revenue takes account of higher per capita expenditure on government service delivery in remote areas

In its assessment of State and Territory governments' relative fiscal capacities, the CGC takes into account the higher per capita expenditure required for government service delivery in remote areas. This has a significant impact on the distribution of GST revenue between State and Territory governments.

In the CGC's 2015 review of its methods of assessing the distribution of GST revenue, it estimated that State and Territory governments spend (in aggregate) \$2700 more per capita on service delivery in *very remote areas* than in *major cities*, as defined using the ABS remoteness areas (CGC 2015) (figure 3.1). This reflects differences in both the use of services in remote areas and the cost of delivering them. As a result, States and Territories that have more remote populations need more funding to deliver the same level of service.

Figure 3.1 State and Territory government expenditure on public service delivery increases with remoteness^a

Estimate of the impact of remoteness and regional costs on average spend by category, 2013-14



^a Differences are those attributed to remoteness in the CGC's assessments of socio-demographic composition and regional costs. The impact of other socio-demographic variables, such as larger Indigenous Australian populations in remote areas, has been excluded from this analysis.

Source: CGC (2015).

Because the distribution of populations by ABS remoteness area varies significantly between the States and Territories, remoteness and regional costs have a large impact on the distribution of GST revenue (when compared to an equal per capita distribution) (CGC 2015). The CGC's assessment of remoteness and regional costs will reduce the GST distribution to New South

Wales and Victoria in 2019-20 by over \$1 billion each (and reduce the ACT's allocation by \$146 million) while increasing the distribution to the other States and Territories (CGC 2019, p. 32) (figure 3.2).

Figure 3.2 The redistribution of GST revenue to States and Territories with more remote populations to account for higher service delivery expenditure

Impact of remoteness and regional costs on distribution of GST revenue from equal per capita distribution, 2019-20



Source: CGC (2019).

Remoteness also factors into local government funding under the Financial Assistance Grant program

Local governments are much less reliant on outside funding than State and Territory governments. In 2014-15, local governments raised almost 90 per cent of their own revenue, with grants and subsidies making up the remaining 10 per cent (DIRD 2017).

However, there is considerable variation, in per capita terms, in both own-source revenue raised and grants received by local governments. Local governments in urban areas are predominantly funded from their own sources of revenue, particularly rates, fees and charges, whereas for most rural and remote local governments, grants are a substantial source of revenue (PC 2008).

The Australian Government provides funding for local government through the Financial Assistance Grant program (distributed by State and Territory governments) and specific purpose payments direct to local governments (for example, funding for the Roads to

Recovery program for road construction and maintenance projects at a local level). State governments also provide grants to local governments for specific purposes or services.

Under the Financial Assistance Grant program, the Australian Government provides grants to State and Territory governments for distribution to local governments (except in the ACT, where the Territory Government performs both Territory and local government functions). There are two components to the program:

- a general purpose component which is distributed among State and Territory governments on an equal per capita basis
- an identified local road component which is distributed among State and Territory governments on the basis of fixed shares as agreed at the 1990 Special Premiers' Conference (DIRD 2017, p. 17).

Payments under the program totalled \$2.3 billion in 2017-18, made up of \$1.6 billion for the general purpose component and \$0.7 billion for the local road component (DITCRD nd). Both components are 'untied' in the hands of local government, meaning they can spend the grants in accordance with local priorities.

Grants commissions in each State and the Northern Territory recommend the distribution of the funding under the Financial Assistance Grant program to local governments, acting in accordance with the *Local Government (Financial Assistance) Act 1995* (Cth) and the National Principles for allocating grants. The general purpose component, in particular, must be allocated:

- as far as practicable, on a full horizontal equalisation basis so that 'each local governing body in the State or Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State or Territory' (the horizontal equalisation principle)
- to ensure that the minimum general grant allocation for each local government is no less than the amount it would be entitled to if 30 per cent of the general purpose component for the State or Territory were allocated on an equal per capital basis (the minimum grant principle) (DITCRD nd).

The application of the horizontal equalisation principle leads to larger general purpose funding per capita for remote local governments. For example, the median general purpose funding per capita for remote local governments in Queensland in 2014-15 was \$1556, while the equivalent for urban local governments was \$64 (DIRD 2017).

However, the pool of general purpose funding is not sufficient to achieve full equalisation (PC 2008). There have been a number of calls for the removal of the minimum grant principle to support a higher level of horizontal equalisation and enable greater levels of redistribution to relatively less well-off local governments (box 3.3).

Box 3.3 **The minimum grant principle**

The minimum grant principle was first introduced in 1986 (alongside the horizontal fiscal equalisation principle), in recognition that:

... local government, as a whole, has a restricted base from which to raise revenue to finance its expanding functions. Because of this the Government has ensured that every council continues to receive benefits under the program. (Uren 1986)

In 2013, the Independent Local Government Review Panel (2013, p. 45) found that the current arrangements result in large amounts of assistance being provided to relatively well-off local governments, and said:

The Panel believes that in a climate of fiscal restraint, consideration needs to be given to the option of redistributing more funds to the most needy councils and communities.

Similarly, the Henry Tax Review (2009b, p. 694) commented:

There seems little reason that local governments with large fiscal capacities should receive a guaranteed minimum grant (which allows them to tax their residents less than they otherwise would) at the expense of local governments with relatively small fiscal capacities (which result in them taxing their residents more than they otherwise would). The current requirement that each council receives 30 per cent of its per capita share of untied financial assistance grants may prevent State grants commissions from redistributing to councils that require greater assistance.

The Productivity Commission's (2008) study into the fiscal capacity of local governments also found that, given the differences in the scope to raise additional revenue across different classes of councils, there was a case to review the provision of Australian Government general purpose grants to local governments.

Targeted measures to improve access to services

Australian, State and Territory governments offer targeted assistance to improve access to services such as health and education in regional and remote Australia. These include measures to:

- pay doctors up to \$60 000 extra per year to work in remote Australia
- subsidise travel and accommodation costs for geographically isolated children attending boarding school, providing allowances of over \$8000 per year
- provide alternatives for regional and remote Australians unable to access mainstream health and education services — for example, by providing funding for the Royal Flying Doctor Service and by running distance education programs (boxes 3.4 and 3.5).

Box 3.4 Improving access to health services

Incentives for doctors and general practices

From 1 January 2020, the Australian Government's Workforce Incentive Program (WIP) will provide financial incentives to encourage doctors to practise in regional and remote Australia. It will also provide financial incentives to support general practices to engage nurses, Aboriginal and Torres Strait Islander Health Practitioners and allied health professionals. It replaces the General Practice Incentives Program and the Practice Nurse Incentive Program.

The WIP uses the Modified Monash Model (MMM) in determining eligibility. The MMM is a classification system that categorises metropolitan, regional, rural and remote areas according to both geographical remoteness and population size.

Incentive payments to doctors are based on activity levels within eligible locations and the length of time a doctor has been on the program. Eligible doctors in locations classified as MMM 3-7 can receive an annual payment of between \$4500 and \$60 000. For example, Ceduna in South Australia is classified as a MMM 7 location; the maximum WIP incentive available to doctors in Ceduna is \$60 000.

Patient travel assistance schemes

Each State and Territory government has some form of patient travel assistance scheme to support patients who need to travel long distances to access specialist medical services. The schemes provide financial support for travel and accommodation to eligible patients.

The Royal Flying Doctor Service

The Royal Flying Doctor Service (RFDS) is a not-for-profit organisation which has been providing medical services to regional and remote Australia since 1928. In 2017-18, the RFDS conducted 38 064 aeromedical retrievals, 75 311 patient road transportations, 16 209 primary healthcare clinics, 88 188 telehealth consultations and 21 828 episodes of dental care. The RFDS did this with a headcount of 1650 staff.

The RFDS is supported by Australian, State and Territory government funding. In 2017-18, the RFDS received \$371 million in revenue, with 30 per cent from State and Territory government funding, 18 per cent from Australian government funding and most of the remainder from fundraising, bequests and donations from the community.

Sources: DOH (2019b); RFDS (2018).

Box 3.5 **Improving access to education**

Incentives for teachers

The Northern Territory and most States offer teachers financial incentives to work in regional and remote schools. For example, the Western Australian Government's Country Teaching Program offers teachers financial incentives of between \$5000 and \$13 730 per year, depending on location (this is distinct from the District Allowance paid to Western Australian government officers).

The Australian Government announced in February 2019 that, subject to the passage of legislation, it would remit all or part of an individual's Higher Education Loan Program debt after they have been engaged as a teacher for four years at a school in a very remote location.

Distance education

State and Territory governments provide distance education to students who cannot attend mainstream schooling. Eligible students include children in remote areas and those who cannot attend school due to medical reasons or other commitments.

Educational services are provided through online resources as well as telephone and videoconferencing. Some government initiatives for distance education include the following:

- School of the Air — a distance education service for children in remote communities that is delivered by all State and Territory governments except the Tasmanian and ACT governments. The service is available mostly for primary school students but can also include secondary school and adult education courses. It covers the same curriculum as other schools in the same jurisdiction and is delivered by high frequency radio transceivers and, increasingly, by videoconferencing via broadband
- School of Distance Education Information and Communications Technology Subsidy Scheme — a Queensland Government initiative that offsets the cost of computer equipment and internet for eligible students enrolled in a School of Distance Education. Annual payments include a \$250 hardware subsidy to assist with computer equipment and a \$500 broadband internet subsidy to assist with the ongoing costs of broadband services.

Assistance for Isolated Children Scheme

The Assistance for Isolated Children Scheme is a group of payments for parents and carers of children who are unable to go to a local government school because of geographic isolation, disability or special needs.

In 2017-18, the scheme provided \$74.9 million to the families of 11 330 students. For 2019-20, estimated expenditure is \$80.1 million.

In 2019, depending on the student's circumstances, the scheme provides:

- a Basic Boarding Allowance of \$8422 (per annum)
- an Additional Boarding Allowance of \$2416 (per annum)
- a Second Home Allowance of \$245.36 (per fortnight, limited to a maximum of three students in a family)
- a Distance Education Allowance of \$4211 (per annum).

Sources: DOE (2019); DOE (WA) (nd); McCormack and McKenzie (2019); PC (2017a).

Building and maintaining communications and transport infrastructure

As discussed in chapter 2, impaired access to services and modern amenities is a recurring theme in many remote communities. To help mitigate this, Australian, State and Territory governments invest significant resources into building and maintaining communications and transport infrastructure in regional and remote Australia.

Australian, State and Territory governments provide support for remote and regional air services and aerodrome infrastructure. For example:

- The Australian Government's Regional Aviation Access Programme provides targeted support for aerodrome infrastructure and air services in remote areas where they are not commercially viable. \$75.1 million has been allocated over the four years to 2022-23 (McCormack and McKenzie 2019, p. 243).
- The New South Wales, Queensland and Western Australian governments have introduced regulation that allows for granting monopoly rights to a single operator on certain air routes. This limits competition with the intention of making low volume routes commercially viable. In Queensland, there are seven such regulated air routes servicing 27 communities (RRATRC 2019, p. 136).
- The Queensland Government's Local Fare Scheme is an airfare subsidy provided to eligible residents of Cape York, the Torres Strait Islands and some Gulf of Carpentaria communities. Residents may receive a discount of up to \$400 for return airfares when travelling between their local airports and Cairns (DTMR 2019).

The Mobile Black Spot Program is an Australian Government initiative to improve mobile reception in regional and remote Australia. Mobile network operators bid for funding to provide base stations in 'black spots' — areas with inadequate mobile coverage. As at 20 March 2019, 683 base stations had been activated under the program (DCA 2019). The program is supported by co-contributions from State and local governments, mobile network operators, businesses and local communities.

The Australian Government has a longstanding agreement with Telstra for it to deliver the Universal Service Obligation (USO); the USO ensures that standard telephone services and payphones are reasonably accessible to all people in Australia, regardless of where they work or live. Telstra receives gross annual funding of around \$300 million to deliver the USO. Funding is met through an Australian Government contribution of \$100 million per year and through the Telecommunications Industry Levy, paid by eligible carriers (PC 2017a, p. 8).

The Australian Government has committed to completing the National Broadband Network and ensuring all Australians have access to high-speed broadband by 2020. It is estimated that by 2020, over \$12 billion will have been spent on the National Broadband Network to provide over 2.7 million regional premises with fixed-line broadband, 600 000 premises with access to fixed wireless services and 400 000 premises with access to improved satellite services (McCormack and McKenzie 2019, p. 55). In 2016, the Bureau of Communications Research estimated that net losses involved in servicing fixed wireless and satellite premises to 2040

would be about \$9.8 billion in net present value terms, equivalent to a subsidy of \$1260 per fixed wireless premise per year and \$1320 per satellite premise per year (BCR 2016).

Supplementing significant State and Territory government expenditure on road infrastructure, the Australian Government is providing a total of \$5.58 billion from 2013-14 to 2022-23 through the Roads to Recovery Program to support the construction and maintenance of local roads. About three-quarters of program funds will be provided to local governments in rural and regional areas (McCormack and McKenzie 2019, p. 215).

3.3 Industry-specific assistance

In addition to measures that directly target assistance to individuals and business in regional and remote areas, governments also provide assistance to industries. Government industry assistance can take a number of forms including:

- import tariffs, which raise the price of imported products (mainly manufactured goods) allowing competing domestic firms to charge higher prices
- budgetary measures including subsidies (predominantly grants and concessional loans) and tax concessions.

The Commission estimates that net assistance to industry provided by the Australian Government was \$12.3 billion in 2017-18. Mining and primary production, industries with a prominent presence in regional and remote Australia, received about \$2.6 billion, equivalent to 21 per cent of the total (PC 2019b).

The vast bulk of this support comes in the form of budgetary measures. The Commission estimates that total Australian Government budgetary assistance to the primary production and mining industries in 2017-18 was \$2.35 billion, including:

- \$1.89 billion in total budgetary assistance to primary production — \$874 million in outlays and \$1.02 billion in tax concessions
- \$461 million in total budgetary assistance to mining — \$190 million in outlays and \$271 million in tax concessions (PC 2019b).

This cost estimate cannot be wholly apportioned to businesses in regional and remote areas. Also, the estimates exclude other forms of Australian Government budgetary assistance to industry that are difficult to quantify (such as concessional debt and equity finance) or assistance that is provided by State and Territory governments. For example, in Victoria, an exemption from land tax is available for land used primarily for primary production, and farmers under the age of 35 can receive concessions on land transfer duty when they buy their first farmland (State Revenue Office Victoria nd).

3.4 Measures affecting remote Indigenous communities

Australian, State and Territory governments are involved in the development and administration of various policies affecting Indigenous Australians, such as the Closing the Gap Strategy. Because a large proportion of Indigenous Australians live outside of major cities, it is common for such policies and programs to have a regional or remote dimension.

Although these measures are not the focus of this study, an understanding of them helps put into context the materiality of the remote area tax concessions and payments to eligible Indigenous Australians in regional and remote Australia.

State and Territory governments oversee the delivery of services to remote Indigenous communities. This is a particularly significant focus of the Northern Territory Government. For example, the Northern Territory Government coordinates essential services to 72 remote Indigenous communities (Northern Territory Government 2017). It also runs the Homelands Program, which funds service providers to help residents of homelands with municipal and essential services and household maintenance. Homelands are remote areas where small populations of Indigenous Australians live. They are sometimes called outstations. There are about 500 homelands in the Northern Territory, with a total of about 2400 homes and 10 000 people (Northern Territory Government 2017).

Australian, State and Territory governments have implemented policies to reduce significant overcrowding, poor housing conditions and housing shortages in remote Indigenous communities. For example, from 2016-17 to 2026-27, the Northern Territory Government's \$1.1 billion Remote Housing Program is providing \$500 million for the construction of new public housing, \$200 million to increase living spaces in existing homes, \$200 million for repairs and maintenance and \$200 million to expand government employee housing in remote areas (Northern Territory Government 2019a). The program is supported by an additional \$550 million over five years from 2018-19 contributed by the Australian Government (Treasury 2019a, p. 42).

The Australian Government's Indigenous Procurement Policy is a mandatory procurement-related policy which commenced on 1 July 2015. Its purpose is to leverage the Australian Government's annual multi-billion dollar procurement spend to drive demand for Indigenous goods and services, stimulate Indigenous economic development and grow the Indigenous business sector. Under the Indigenous Procurement Policy, Indigenous businesses must be approached first to quote on contracts delivered in remote areas. In 2016-17, 600 new contracts were delivered by Indigenous businesses in remote areas at a value of \$64 million. This is a significant increase on the total of \$6.2 million worth of Australian Government contracts (remote and non-remote) won by 30 Indigenous businesses in 2012-13 (PM&C 2019a).

3.5 Summing up

This chapter identifies a large number of government measures aimed at encouraging regional development and providing support to individuals, businesses and communities located in regional and remote Australia. Collectively, billions of dollars are directed by governments to such measures. It puts into perspective the small scale of the remote area tax concessions and payments with similar objectives that are reviewed in this study.

DRAFT FINDING 3.1

Remote area tax concessions and payments form just one small part of the broad suite of measures put in place by all levels of government to support individuals, businesses and communities and to facilitate development in regional and remote Australia.

4 The zone tax offset

Key points

- The zone tax offset (ZTO) is intended to compensate individuals for the difficulties associated with living in remote areas — primarily an uncongenial climate, isolation and a higher cost of living. The ZTO has also been justified as an instrument of regional development policy, helping to attract and retain population in regional and remote areas.
- The size of the offset varies by zone: \$57 for residents of ordinary Zone B, \$338 for residents of the more-remote ordinary Zone A, and \$1173 in 'special areas', which are particularly remote parts of both zones. Higher rates are available for taxpayers who maintain certain dependants.
- The ZTO is a small part of the tax and transfer system. Just 3 per cent of taxpayers — some 480 000 — claim it, and tax savings are less than \$100 a year for nearly half of these.
 - About half the claimants live in the four largest cities in the zones (Townsville, Cairns, Darwin and Mackay) and almost 40 per cent of Northern Territory residents claim it.
 - Most ZTO claimants are higher income earners, with 60 per cent earning incomes above the Australian median.
- The ZTO is outdated. It is a poorly-targeted instrument for providing assistance to residents of remote areas, and is ineffective as a regional development tool.
 - The zone boundaries do not align with contemporary measures of remoteness. Residents of regional cities that can no longer be considered isolated remain eligible for the ZTO, while nearly half of the taxpayers living in *remote* or *very remote* areas (as defined by the ABS) are not eligible for the ZTO.
 - The value of the ZTO has eroded through time. The offset was last increased in 1993-94 and is now considerably lower as a share of income than it was when introduced in 1945. This trend has been partially counterbalanced by the higher rate paid to special area residents since 1982.
 - There is some evidence that, when the ZTO commenced, it encouraged some individuals to move to (or at least not to leave) the eligible areas. However, there is no evidence to suggest that the ZTO currently affects where people choose to live and work.

The Australian Government has granted income tax concessions to people in isolated parts of Australia since World War II. Today's zone tax offset (ZTO), while more modest than when introduced, still applies to taxpayers across more than three-quarters of Australia's landmass.

This chapter examines the ZTO. It describes the objectives and operation of the concession (section 4.1), traces its history (section 4.2), summarises who receives the concession and where they reside (section 4.3), and looks at how its value has changed over time (section 4.4). It then analyses the concession's economic and employment effects

(section 4.5) and how effectively it achieves its objectives (section 4.6). Drawing on this analysis, the Commission considers the future of the ZTO in chapter 5.

4.1 What is the ZTO?

The ZTO is an income tax rebate⁹ available to residents of defined geographical areas (zones). The stated objective is to provide an income tax concession in recognition of the disadvantages associated with living in those zones.¹⁰ These difficulties are often considered to stem from:

- *uncongenial climatic conditions* — as the zones cover the tropical north and arid inland areas (as well as west Tasmania and some isolated islands)
- *isolation* — the ‘tyranny of distance’ from population centres and the services they offer
- *high cost of living* — as freight costs and limited competition can lead to higher costs for goods and services in remote areas.

To be eligible for the ZTO, an individual must meet the residency test in one of the two zones: Zone A or Zone B (figure 4.1).¹¹ The test requires the individual both to have their usual place of residence in one of the zones and to have been physically present in a zone for more than half of the financial year.

There are three concession rates, differing by zone. The highest rate are available for residents of ‘special areas’, covering particularly remote parts of Zones A and B and some adjacent islands. Taxpayers who maintain certain dependants¹² can claim an additional amount (as determined by the dependant loading) on top of the ZTO. The base rates and dependant loadings are as follows.

- Special areas: \$1173 a year base rate, plus 50 per cent of applicable dependant rebates.
- Ordinary Zone A: \$338 a year base rate, plus 50 per cent of applicable dependant rebates.
- Ordinary Zone B: \$57 a year base rate, plus 20 per cent of applicable dependant rebates.

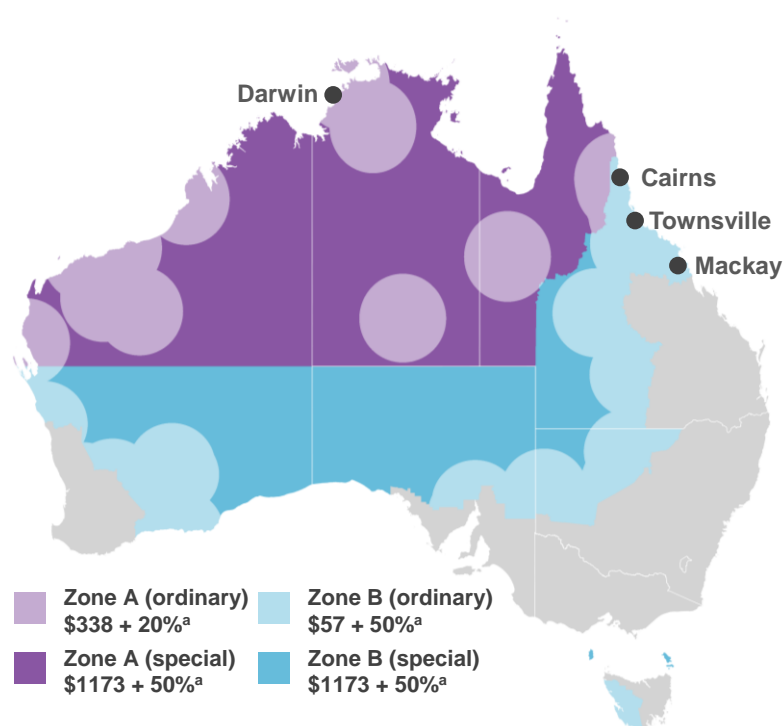
⁹ This chapter uses the terms ‘rebate’ and ‘offset’ interchangeably, as both refer to a fixed reduction in the amount of income tax owed. They are distinct from a tax deduction, which reduces the amount of *taxable income* on which income tax is then levied.

¹⁰ *Income Tax Assessment Act 1936* (Cth), s. 79A(1).

¹¹ These are described in Schedule 2 of the *Income Tax Assessment Act 1936* (Cth).

¹² A child under the age of 21, a student under the age of 25, an invalid, or an invalid carer.

Figure 4.1 Areas eligible for the zone tax offset



^a Taxpayers who maintain dependants and are eligible for certain rebates can claim a share of that rebate on top of the ZTO. Percentage figures refer to the share of those rebates that can be claimed.

Note: Special area boundaries are based on the 'shortest practicable surface route' from an urban centre. The map is approximate only. Special Zone A also includes: the Australian Antarctic Territory, Christmas Island, the Cocos (Keeling) Islands, the Territory of Heard Island and McDonald Islands, Lord Howe Island, Macquarie Island and Norfolk Island.

Source: *Income Tax Assessment Act 1936* (Cth), s. 79A; schedule 2.

Taxpayers are responsible for self-assessing whether they are eligible for the ZTO and for estimating how much they can claim. Generally, they will do this as part of their annual income tax return, with the ZTO reducing their income tax liability. Individual taxpayers can also request (through a withholding declaration) their employer to withhold *less* tax in their regular pay, which would enable the benefit of the concession to be spread over every payday (ATO 2018b). Just 7300 ZTO claimants took advantage of this option in 2016-17 (ATO, pers. comm., 29 July 2019).¹³

The ZTO is a non-refundable offset; the taxpayer is not 'reimbursed' if the offset reduces their tax liability to below zero.

¹³ All ZTO data published by the Australian Taxation Office also include data on the overseas forces tax offset (OFTO). The Commission has estimated that fewer than 1000 taxpayers are eligible for that offset, which is available at the Zone A rate. The data have not been adjusted and are reported inclusive of the OFTO.

4.2 The ZTO's origins and evolution

The precursor to the ZTO was an income tax deduction for residents of isolated areas, first put in place in 1945.¹⁴ The explanatory memorandum for that legislation provided some insight into the purpose of the concessions.

It has long been recognized that people living in the remote areas of Australia suffer the disabilities of isolation, high costs of living and uncongenial climatic conditions. The existence of these disabilities is admitted by both employers and wage fixing authorities, and special allowances are often granted to employees located in these areas.

Allowances of this nature are assessable in full. No deduction is allowable for additional household expenditure incurred by the taxpayer because of the higher cost of living prevailing in these districts. In consequence a substantial part of such allowances received by the taxpayers is often absorbed in the payment of their income tax.

As the diminution in the value of such allowances through the payment of income tax may tend to dissuade persons from accepting employment in the remote areas, post war development plans may be seriously affected. On the other hand, the allowance of an income tax concession to all taxpayers residing in such areas would tend to encourage settlement in those areas and, at the same time, provide a form of compensation for the disabilities they are obliged to endure. (Chifley 1945a)

The primary purpose of the concessions was, therefore, a response to the economic circumstances of the time. Businesses operating in more remote areas (such as pastoral and mining companies) were said to be struggling to encourage workers to relocate and fill labour shortages (Manning 2013). High marginal tax rates during the period directly after World War II meant that significant shares of any remote allowances offered by employers were captured by income tax.¹⁵

The deduction was designed to reduce the burden of those high marginal tax rates on employers seeking to attract employees to isolated areas with higher wages. But, as the explanatory memorandum makes clear, there were considered to be other merits to the concession — including to provide a form of compensation for the disadvantages of life in remote areas, but also to encourage settlement in remote Australia (Chifley 1945a).

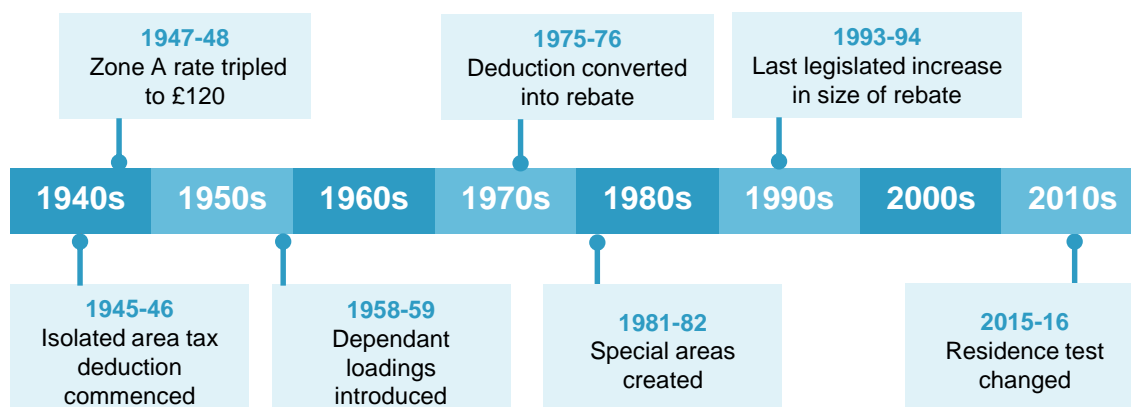
Although the broad strokes of the policy have been maintained, the Australian Government has amended the concession over time, often as part of broader reform of the tax system. These changes are outlined in figure 4.2 and described in the text below.

¹⁴ Section 79A of the *Income Tax Assessment Act 1936* (Cth). The original deduction was created by an amendment — the *Income Tax Assessment Act 1945* (Cth).

¹⁵ The highest marginal income tax rate was 76 per cent in 1945-46, although it was 28 per cent for a worker on an average income.

Figure 4.2 **Zone tax offset timeline**

1945-46 to 2015-16



Source: *Income Tax Assessment Act 1936* (Cth), s. 79A (various amendments).

Concession rates

On commencement in the 1945-46 financial year, a £40¹⁶ income tax deduction was made available for residents of Zone A, with a £20 deduction for residents of Zone B. The concessions, which were specified in an amendment to the *Income Tax Assessment Act 1936* (Cth), did not automatically increase over time; any changes required the Australian Parliament to amend the legislation. Subsequent changes to the concession rates are detailed in table 4.1.

Just two years later, the Zone A rate was tripled to £120, with the Zone B rate left unchanged.¹⁷ The Australian Government introduced dependant loadings in 1958, allowing taxpayers to claim a larger concession if they maintained dependants and were thus eligible for certain dependant rebates.¹⁸ This amount was originally worth half of the relevant rebate for residents of Zone A, and one-twelfth of the rebate for residents of Zone B.¹⁹ Originally, eligible rebates included those for dependent spouses, housekeepers, daughter/housekeepers, invalid relatives, and sole parents, as well as notional rebates for dependent children (ATO 2019b).

¹⁶ One pound is nominally equal to \$2. After adjusting for inflation, a deduction of £40 in Zone A (£20 in Zone B) in 1945 would be the same as a tax deduction of about \$2880 (\$1440) today. However, as the ZTO is now available as a tax rebate, these figures cannot be directly compared to the rates of the current ZTO. (The value of the concession through time is analysed in section 4.4.)

¹⁷ *Income Tax Assessment Act 1947* (Cth), s. 14.

¹⁸ The additional amount is calculated by multiplying the dependant loading by the applicable dependant rebate. Some rebates are notional only; taxpayers cannot claim them directly, but they can be applied using the dependant loading to allow taxpayers to claim a larger zone tax concession.

¹⁹ *Income Tax and Social Services Contribution Assessment Act 1958* (Cth), s. 8.

Table 4.1 Income tax zone concessions over time

Financial Year	Concession type	Base concession (\$ a year, nominal)			Dependant loading (%)		
		Ordinary Zone A	Ordinary Zone B	Special area	Ordinary Zone A	Ordinary Zone B	Special area
1945-46	Deduction	80 ^a	40 ^a	..	..	..	..
1947-48	Deduction	240 ^a	40 ^a	..	..	..	..
1956-57	Deduction	360 ^a	60 ^a	..	..	..	..
1958-59	Deduction	540 ^a	90 ^a	..	50	8 ⅓	..
1975-76	Rebate	216	36	..	25	4	..
1981-82	Rebate	216	36	750	50	20	50
1984-85	Rebate	252	42	875	50	20	50
1985-86	Rebate	270	45	938	50	20	50
1992-93	Rebate	304	51	1 056	50	20	50
1993-94	Rebate	338	57	1 173	50	20	50
2018-19	Rebate	338	57	1 173	50	20	50

^a Prior to 1965, the isolated area deduction was specified in pounds (one pound is nominally equal to \$2).

Sources: *Income Tax Assessment Act 1936* (Cth), s. 79A (various amendments); ATO (2019b), *Individuals Snapshot table 1*.

In 1966, the deduction amounts were converted from pounds to dollars as part of the decimalisation of the Australian currency. And in 1975, the concession was converted into a rebate as part of broader reforms to redistribute the burden of taxation following the Asprey Review (1975). The Government of the day considered rebates more ‘generous and equitable’ than the prior system of concessional deductions (Hayden 1975, p. 1952).

In August 1980, the Australian Government announced the first (and, prior to this study, only) comprehensive public review of the remote area income tax concessions. The 1981 *Public Inquiry into Income Tax Zone Allowances* (the Cox Review) made a number of recommendations; of those accepted by the Government, the most significant was the creation of ‘special areas’ within the existing zones (Cox et al. 1981; box 4.1). Special areas were defined as any part of Zone A or B that was more than 250 kilometres away (by road) from any town with a population of 2500 people or more.²⁰ The special area rebate was originally set at \$750 (about three-and-a-half times the Zone A rate at that time).

²⁰ The population of towns was originally defined based on the 1976 Census, but later updated to 1981 Census figures with a requirement that no area was made worse off (*Income Tax Assessment Amendment Act (No. 4) 1984* (Cth)). The special area definition is still based on 1981 Census populations. The Commissioner of Taxation has discretion to treat areas of ordinary Zones A or B as part of the special area, if they are adjacent or in close proximity to the special area (*Income Tax Assessment Act 1936* (Cth), s. 79A(3F)).

The Australian Government increased the zone rebates in 1984, and in 1992, when it legislated increases for both the 1992-93 and 1993-94 financial years.²¹ The base rates have remained unchanged since 1993-94.

Over time, the Australian Government has reduced the types of dependants for whom a taxpayer can apply for a dependant loading.

- The housekeeper and dependent spouse rebates were repealed by 2014-15.
- Rebates for dependent children (either for sole parent or partnered) exist only as ‘notional rebates’ for the purpose of applying the dependant loading for the ZTO and the overseas forces tax offset (OFTO). These rebates have not been increased since 1981-82 (ATO 2019b).
- The invalid and invalid carer offset remains available as a standalone rebate, and increases annually in line with the Consumer Price Index (CPI).

Box 4.1 The Cox Review

The Australian Government commissioned a public inquiry into the disadvantages of life in remote Australia, and the appropriate measure of relief through tax concessions. The *Public Inquiry into Income Tax Zone Allowances* was directed to make recommendations on changes to the system of income tax zone allowances (including their potential abolition).

The inquiry reported to the Treasurer in June 1981. It concluded that there was justification for the zone allowances on ‘social grounds’, and recommended that:

- (a) A special category be created for those taxpayers who live in one of the zones at a place in excess of 250 kilometres from a population centre of 2500 people or more. The rebate to be \$750 plus the percentage of the dependants rebate claimable in respect of the zone in which they are.
- (b) The basic allowance for both zones remain the same but the proportion of the rebate allowed for dependants to be increased to 50 per cent in Zone A and 20 per cent in Zone B.
- (c) There should be no realignment of the existing boundaries except that towns with a population in excess of 25 000 in Zone A be changed to Zone B and in Zone B be excluded from zone areas.
- (d) That the external territories be excluded from the zones and that section 79B of the Income Tax Assessment Act be rescinded.
- (e) The six months period for eligibility should be able to be accrued over two income years.
- (f) Future reviews should be carried out every five years. (Cox et al. 1981, p. 1)

The Australian Government at the time accepted the recommendations to create ‘special areas’ within the existing zones and to increase dependant loadings, and agreed to regular review of the policy. But it rejected the exclusion of larger centres from the zones, on the basis that this would create hardship in Darwin and other towns. The Government also did not exclude external territories or repeal section 79B (the overseas forces tax offset).

Of the four reviewers, two provided dissenting reports; both arguing for more generous concessions and greater delineation between different degrees of remoteness on the basis of equity.

Sources: Cox et al. (1981); Hicks (2001); Tambling (1982).

²¹ *Taxation Laws Amendment Act (No. 5) 1992* (Cth).

Eligibility

In 1945, Zones A and B were defined on the basis of ‘rainfall, latitude, distance from centres of population, density of population, predominant industries, rail and road service, and cost of food and groceries’ (Chifley 1945b, p. 924).

The setting of the zone boundaries was a matter of some debate. One opposition MP noted that the ‘boundaries of the zones appear to have been drawn by some one who was blindfolded and merely drew lines on the map of Australia’ (White 1945b, p. 1735). The then-Leader of the Opposition (Sir Robert Menzies MP) noted the risk of ‘pressure groups’ demanding rezoning and access to zone tax concessions (Menzies 1945, p. 1297).²²

There have been a number of minor amendments since.

- Zone A was expanded in 1956, with the boundary between Zone A and Zone B moved south to the 26th parallel (the border between the Northern Territory and South Australia).
- Special areas were created in 1982 following the Cox Review (box 4.1). This did not bring new regions into the arrangements, but did increase the concession rate in particularly remote areas.
- Following representations in Parliament, residents of Christmas Island were made eligible in 1985, while residents of the Furneaux Group of islands, King Island and Lord Howe Island were made eligible in 1990.

The original residency test required a claimant both to reside in a zone and to have actually been present in a zone for more than half of the financial year.²³ This residency test was changed in 1982 following the Cox Review, allowing individuals who had lived a full calendar year in a zone, but failed to meet the residency test for either financial year, to claim the ZTO in the second tax year.²⁴

The residency test was again revised in 2015 to require that the taxpayer’s *usual* place of residence was within the zones (O’Dwyer 2015).²⁵ A taxpayer with a usual place of residence outside of a zone can no longer claim the ZTO, regardless of how many days they spend within the zones. This was done to address concerns about the large number of people who lived in major cities, but worked for part of the year in remote areas on a fly-in fly-out basis, who were claiming the ZTO.

²² This occurred in Parliament almost immediately, with an amendment moved (unsuccessfully) on 4 May 1945 to include the Wimmera-Mallee region of Victoria, and another moved (successfully) on 15 May 1945 to include the west coast of Tasmania in Zone B.

²³ *Income Tax Assessment Act 1945* (Cth), s. 11.

²⁴ *Income Tax Assessment Amendment Act 1982* (Cth), s. 10(c).

²⁵ *Tax and Superannuation Laws Amendment (2015 Measures No. 5) Act 2015* (Cth), schedule 2.

Policy rationales

The legislative objective of the ZTO is to grant:

... an income tax concession in recognition of the disadvantages to which [residents of the prescribed area] are subject because of the uncongenial climatic conditions, isolation and high cost of living in Zone A and, to a lesser extent, in Zone B, in comparison with parts of Australia not included in the prescribed area ... (*Income Tax Assessment Act 1936* (Cth), s. 79A(1))

The explanatory memorandum to the original legislation focused on the taxability of additional wages paid to workers to encourage them to relocate to remote areas, with the Government concerned that high tax rates ‘may tend to dissuade persons from accepting employment in the remote areas, [and] post war development plans may be seriously affected’ (Chifley 1945a). Providing an income tax deduction to all taxpayers in those areas was thought to ‘encourage settlement in those areas and, at the same time, provide a form of compensation for the disabilities they are obliged to endure’.

The rationale for the concessions has since shifted. In 1981, the Cox Review found that there was an ongoing justification for the zone allowances on what it termed ‘social grounds’ (Cox et al. 1981, p. 31). This effectively reframed the objective as an equity rationale; no longer focused on reducing the burden of taxation for employers sourcing labour, but focused instead on providing relief from higher costs of living for residents of certain areas. The Assistant Treasurer’s second reading speech for the 2015 amendments to ZTO eligibility, also made reference to the policy intent as being to compensate residents for the disadvantages of living in remote areas (O’Dwyer 2015).

Other commenters and study participants have posited a range of rationales for the concession, which can broadly be grouped under ‘compensation’ or ‘regional development’. (These rationales are discussed in more detail in chapter 5).

4.3 Who claims the ZTO?

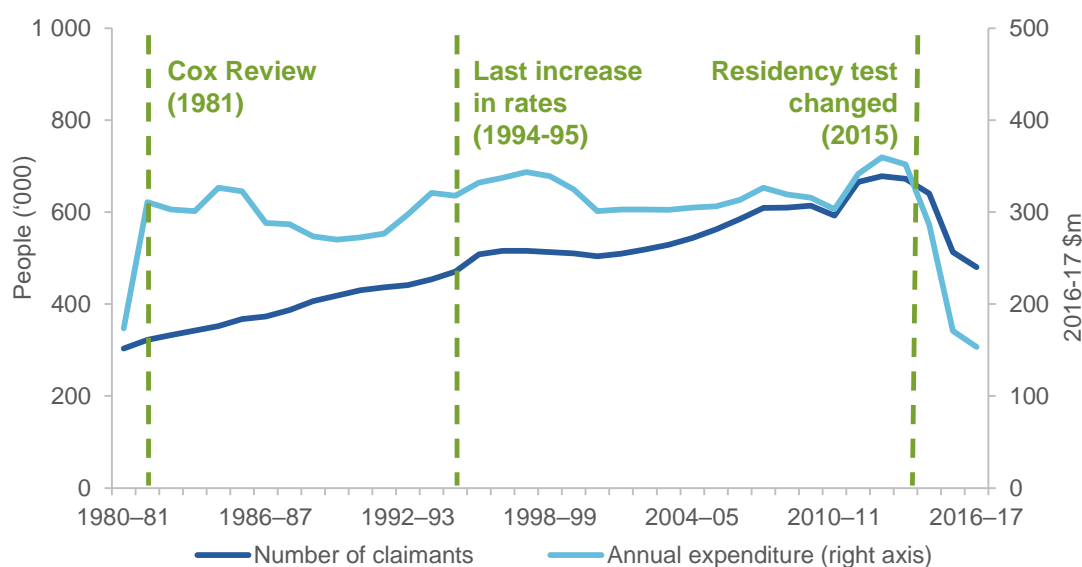
The ZTO is a small part of the Australian tax and transfer system. About 480 000 people claimed the concession in 2016-17, representing about 3 per cent of Australians who filed income tax returns that year. These claims were worth about \$153 million in reduced tax revenue; a relatively small concession compared with other tax offsets — for instance, the Seniors and Pensioners Tax Offset and the Australian Super Income Stream Offset, which are jointly worth about \$1.4 billion annually (ATO 2019b).²⁶ The average per-person claim was \$319 per year.

²⁶ All data are reported based on ZTO claims, not amount actually received. Each individual did not necessarily receive the cash benefit of the offset as some people would not have had sufficient gross tax to be offset.

Fewer people claim the ZTO than in the past

Until 2015, the number of ZTO and OFTO claimants grew gradually (figure 4.3). However, the number decreased by about a fifth between 2014-15 and 2015-16, and the budgetary cost of the concession fell by 40 per cent. The share of Australian taxpayers claiming the ZTO and OFTO in 2016-17 was the lowest since 1980 (ATO 2019b).

Figure 4.3 Zone tax offset over time
Expenditure and number of claimants^a, 1980-81 to 2016-17



^a Including overseas forces tax offset claims.

Source: ATO (2019b).

There are two likely reasons for the recent decline in ZTO expenditure. First, a number of workers who usually resided outside of the zones would have been excluded by the 2015 changes to the residency test. Second, the removal of most of the related concessional offsets by 2014-15 is likely to have reduced the size of the rebates available to some claimants.

Claimants are concentrated in coastal regional centres

About 95 per cent of claimants live in Queensland, Western Australia and the Northern Territory (table 4.2). Most are in Queensland, but because many of them reside in ordinary Zone B, the average per-person claim in that state is just \$193.

Table 4.2 Overview of zone tax offset claimants^a
2016-17 financial year

	Claimants		Amount claimed		Average claim
	'000 people	%	\$m	%	\$ per person
Australia	480	100	153	100	319
By state or territory					
<i>Queensland</i>	288	60	55	36	193
<i>Northern Territory</i>	96	20	53	35	555
<i>Western Australia</i>	70	15	31	20	441
<i>New South Wales</i>	14	3	4	3	316
<i>South Australia</i>	6	1	6	4	984
<i>Tasmania</i>	3	1	2	1	603
<i>Other^b</i>	4	1	2	1	446
By remoteness ^c					
<i>Very remote</i>	52	11	44	29	858
<i>Remote</i>	67	14	30	20	452
<i>Regional^d</i>	338	70	67	44	198
<i>Major cities</i>	13	3	6	4	452
<i>Other</i>	11	2	6	4	530
Regional centres ^e					
<i>Townsville</i>	69	14	8	5	113
<i>Cairns</i>	60	12	9	6	147
<i>Darwin</i>	56	12	26	17	455
<i>Mackay</i>	34	7	3	2	100

^a Including overseas forces tax offset claims. ^b Includes Victoria, ACT, overseas and otherwise unknown postcodes. ^c Based on ABS 2016 remoteness areas. ^d Includes both *inner regional* and *outer regional Australia*. ^e Defined by ABS urban localities.

Sources: ABS (2018c); ATO (2019b); Commission estimates based on unpublished data provided by the ATO.

Most claims are made by residents of ordinary zones A and B (about 414 000 people), with only about 29 000 claimants residing in special areas (table 4.3).

About 38 000 claimants recorded an out-of-zone postcode. This cohort largely consists of taxpayers who resided in the zones during the financial year, but moved elsewhere before filing their tax return, as well as claimants of the OFTO.

About two-thirds of ZTO and OFTO claimants did not report maintaining dependants. Dependant loadings were only claimed by the remaining third who reported maintaining one (12 per cent), two (14 per cent) or three or more dependants (8 per cent). Fewer than

1000 people claimed both the ZTO and the invalid and invalid carer offset, and their total claims were worth about \$1 million.

Table 4.3 Estimated zone tax offset claimants by zone
Amount of ZTO claimed, 2016-17

<i>Zone</i>	<i>Claimants</i> '000 people	<i>Total claims^a</i> \$m	<i>Average claim</i> \$ per person
Ordinary Zone B	291	39	133
Ordinary Zone A	123	63	511
Special Zone B	6	6	1 149
Special Zone A	23	27	1 135
Other ^b	38	19	496
Total^c	480	153	319

^a Refers to ZTO claimed by taxpayers, which exceeds the amount actually received. ^b Includes claimants who recorded an out-of-zone address, overseas addresses, and postcodes not linked to a geographical area. ^c Columns may not sum to totals due to rounding.

Source: Commission estimates based on unpublished ATO data.

A large share of Northern Territory residents (about 96 000 people, or almost 40 per cent), claim the ZTO or OFTO. Even so, a substantial cohort of people who are nominally eligible for an offset do not claim it. The entire Northern Territory is in Zone A (ordinary and special) but only 75 per cent of Territory residents who filed tax returns claimed the ZTO in 2016-17. After accounting for individuals who did not owe income tax, almost 20 000 people in the Territory (15 per cent of Northern Territory taxpayers) paid income tax but did not claim the ZTO.²⁷

Many ZTO claimants live outside the areas defined by the Australian Bureau of Statistics (ABS) as *remote* and *very remote* areas.²⁸ In fact, only a quarter of claimants resided in *remote* or *very remote* areas. Similarly, a large cohort of taxpayers in *remote* and *very remote* areas are not eligible for the ZTO. Of the 223 000 taxpayers who reported living in *remote* or *very remote* areas, about half claimed the ZTO.

More than two-thirds of claims, 338 000, originated from residents of ABS *inner* and *outer regional* areas (table 4.2). Many of these claimants resided in the four largest cities in the zones: Cairns, Townsville, Darwin and Mackay. These four cities alone account for almost half of total claimants, and about 30 per cent of claims by value.

²⁷ Commission estimates based on unpublished ATO data. Some taxpayers may not have met the residency test (they may have only recently moved to a zone and not yet resided there for six months).

²⁸ The Australian Bureau of Statistics classifies each part of Australia in one of five categories of remoteness (from *major cities* to *very remote* areas) based on an index of road distance and access to population centre (chapter 1, box 1.2).

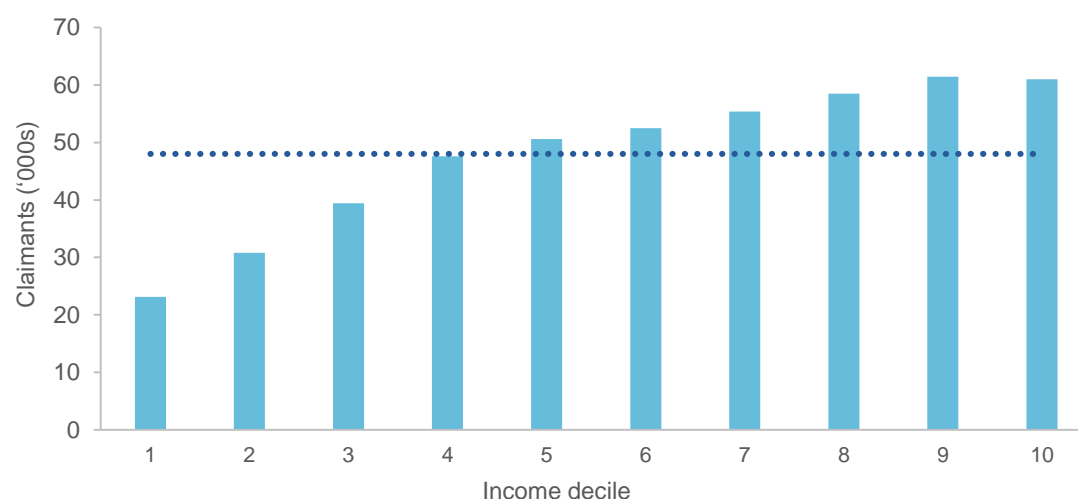
Indigenous Australians make up more than a quarter of the people living in *remote* or *very remote* areas (chapter 2). There are no data available on the number of Indigenous ZTO claimants. Using 2016 Census data, the Commission has estimated that about 33 000 employees who resided in the zones were Indigenous Australians. Together with the Commission's (above) estimate that about three-quarters of taxpayers residing in zones actually claim an offset, this suggests that some 24 000 Indigenous Australians claim the ZTO (most of whom reside in the Northern Territory).

Many ZTO claimants earn above-median incomes

As discussed in chapter 2, many residents of remote Australia earn greater remuneration than employees elsewhere in Australia.

Of those who claimed the ZTO or OFTO in 2016-17, 60 per cent earned higher incomes than the Australian median (figure 4.4). And of those 480 000 claimants, a quarter were in the top 20 per cent of Australian income earners; only 54 000 (11 per cent) were in the lowest 20 per cent.

Figure 4.4 ZTO claimants, by income decile^a
2016-17



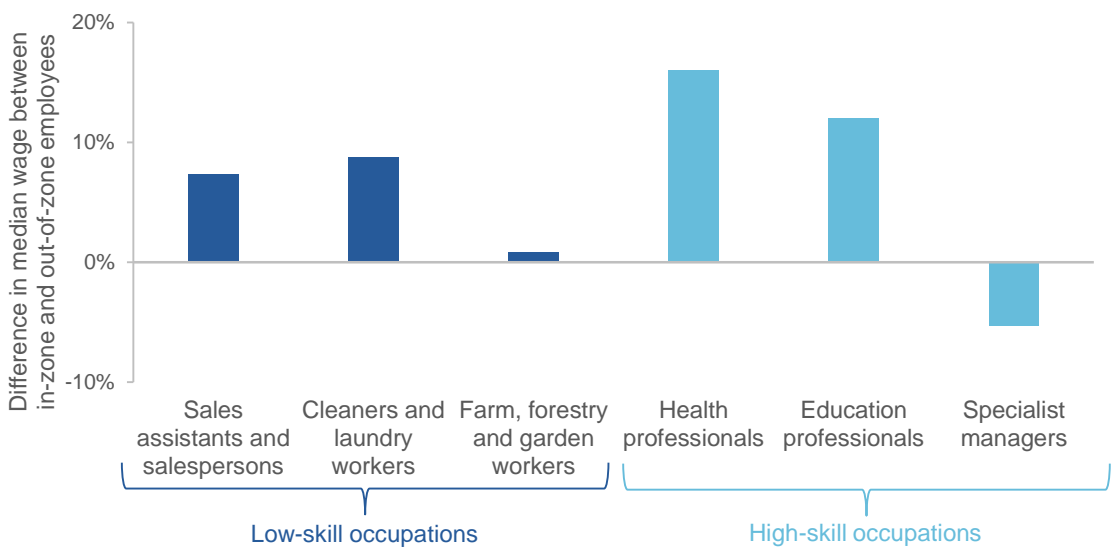
^a Income deciles are defined using figures for all Australian taxpayers. The dotted line represents a (hypothetical) even distribution. All data are reported based on ZTO and OFTO claims, not amount actually received. Each individual did not necessarily receive the cash benefit of the offset as some people would not have had gross tax to offset.

Source: Commission estimates based on unpublished ATO data.

Many ZTO claimants on higher incomes reside in more remote areas (especially the Western Australian parts of the zones), while those claimants on lower incomes are over-represented in the less remote parts of the zones (especially ordinary Zone B in Queensland).

That ZTO claimants earn higher wages and salaries than Australians in general is not surprising: in 2016-17, the median wage and salary across the ZTO zones was \$43 000, or about 16 per cent higher than the Australian median of \$37 000. This pattern was quite marked in Ordinary Zone A and special areas, but less so in ordinary Zone B. Median salaries and wages for many occupations are higher in the zones than in the rest of Australia (figure 4.5). This in turn results from the population characteristics of the zones as well as any ‘remoteness premiums’ paid by employers to encourage workers to less-congenial areas.

Figure 4.5 Comparative median wages and salaries in the ZTO zones by occupation^a
2016-17



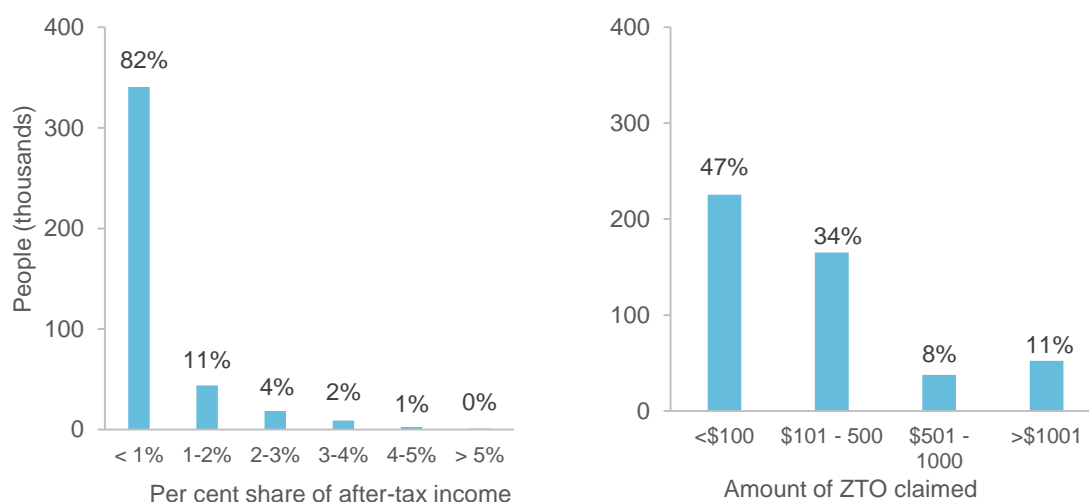
^a Occupations shown are the largest three occupations in the ZTO zones (by employment) in the ‘low-skill’ and ‘high-skill’ categories, as classified by the ATO.

Source: Commission estimates based on unpublished ATO data.

Because the ZTO is not refundable, many individuals on low incomes do not benefit from the full rebate; this is true of those who do not pay tax (because of the tax-free threshold), or who pay less tax than the relevant ZTO. In 2016-17, about one-in-six claimants paid no net income tax and some (if not most) of those did not receive the entire ZTO rebate (that is, they did not receive the full amount they claimed). Similarly the ZTO is worth less than \$100 to almost half of all claimants; with about 11 per cent claiming more than \$1000 in 2016-17 (figure 4.6).

Figure 4.6 Zone tax offset as share of after-tax income and amount claimed

Based on ZTO claims, 2016-17



Source: Commission estimates based on unpublished ATO data.

4.4 How has the value of the ZTO changed?

Estimating how the value of the ZTO has changed over its lifetime is not straightforward. Because the concession was originally a deduction, simply comparing the rates over time is misleading — the benefit of a tax deduction (to the taxpayer) depends on the marginal tax rate they face, whereas the value of a tax rebate is the same regardless of the tax rate (so long as their income is high enough for them to receive the entire rebate).

To account for the conversion from a deduction to a rebate, the Commission analysed the value of the ZTO and its forerunner concessions in terms of their value for a worker on the Australian average income.²⁹ Two different measures have been used to show how the value has changed through time. These are:

- the ZTO as a share of after-tax income for a taxpayer on an average income
- the value of the ZTO adjusted for inflation (as measured by the CPI).

²⁹ While the average income of ZTO claimants is unlikely to match the national average, suitably granular data are not available over the historical record.

The value of the base rebate has declined markedly in real terms ...

When originally implemented, the £40 Zone A tax deduction would have increased the after-tax income for a taxpayer on an average wage by £11; or 3.7 per cent of their annual after-tax income (figure 4.7).

- To approximate the same share of after-tax income, the Zone A offset would have needed to be about \$1850 in 2017-18.
- If adjusted for inflation (using the CPI), the Zone A offset in 2017-18 would have been about \$780 (table 4.4).

Figure 4.7 Value of remote area income tax concessions over time
ZTO concession rates as share of after-tax income, by zone and year^{a,b}



^a Concession available to a single taxpayer without dependants under the ZTO and precursor concessions.

^b Taxpayers on half-average earnings were below the tax-free threshold prior to 1950.

Sources: Commission estimates based on ABS wage data (various years) and ATO (2019b), *Individuals Snapshot table 1*.

However, the Zone A deduction was at its most valuable (in real terms) in 1958-59 when it was worth £270. It would have increased after-tax income by 5.3 per cent for the average taxpayer.

- To approximate the same share of after-tax income, the Zone A offset would have needed to be about \$2700 in 2017-18.
- If adjusted for inflation (using the CPI), the Zone A offset in 2017-18 would have been about \$1470.

Table 4.4 Calculating the value of the ZTO precursor concession

In real terms, on commencement and in its most valuable year

		Zone A 1945-46 <i>Commencement</i>	Zone A 1958-59 <i>Most valuable</i>	Zone B 1945-46 <i>Commencement, most valuable</i>
<i>Without isolated area deduction</i>				
Average income (gross)	(1) \$	654	1 989	654
Income tax owed ^a	(2) \$	62	210	62
After-tax income	(3 = 1 - 2) \$	592	1 779	592
<i>With isolated area deduction</i>				
Isolated area deduction	(4) \$	80	540	40
Deducted gross income	(1 - 4) \$	574	1 449	614
Income tax owed (with deduction)	(5) \$	40	115	51
Deduction value (after tax)	(6 = 2 - 5) \$	22	95	11
Share of after-tax income	(6 ÷ 3) %	3.7	5.3	1.9
<i>Equivalent rebate in 2017-18</i>				
Equivalent rebate	Adjusted for inflation ^b	\$ 782	1 468	398
	As share of income ^c	\$ 1 853	2 704	944

^a Assuming no other deductions or offsets were utilised. ^b After-tax value of the deduction, converted into 2017-18 currency by the national annual consumer price index. ^c Based on an average gross income of \$62 371 in 2017-18.

Sources: Commission estimates based on ABS wage data (various years) and ABS (*Consumer Price Index, Australia, March 2019* Cat. no. 6401.0); ATO (2019b), *Individuals Snapshot table 1*.

The Zone B concession followed a more clearly downward trajectory; it was at its most valuable for the average taxpayer when it commenced in 1945, being worth about 1.9 per cent of after-tax income.

- To approximate the same share of after-tax income, the Zone B offset would have needed to be about \$950 in 2017-18.
- If adjusted for inflation (using the CPI), the Zone B offset in 2017-18 would have been about \$400.

Figure 4.7 also shows that the conversion from deduction to rebate in 1975-76 made the measure more progressive. When it was structured as a deduction, the concession was more valuable the higher the tax rate was (thereby benefitting taxpayers on higher incomes). As a fixed rebate, the ZTO is now a larger share of income to taxpayers on lower incomes.

... although this is less true for special areas

Comparing the base rebates for Zone A and Zone B can oversimplify how the value of the offset has changed over time. Dependant rebates, introduced in 1958-59, add to the value of the offset for about one-third of current ZTO claimants (table 4.5). These notional rebates are not formally indexed, but have increased over time (ATO 2019b). The loadings applied were increased substantially in 1981-82.

Table 4.5 Value of notional dependant rebates
Maximum value for a partnered taxpayer, 2017-18

Zone	Number of dependent children			
	None	One	Two	Three
	\$ per year	\$ per year	\$ per year	\$ per year
Notional dependant rebate	0	376	376/282 ^a	376/282 ^a
	Value of zone tax offset (including dependant loading) ^b			
Zone B	57	133	208	283
Zone A	338	526	714	902
Special areas	1 173	1 361	1 549	1 737

^a Maintaining more than one dependant provides a notional rebate of either \$282 (for a dependent child under 21 years old) or \$376 (for a full-time student under 25 years old). Rebates are also reduced for any income earned by the dependant. ^b Assumes any additional dependants are full-time students under 25 and are earning no income. Figures are rounded up to the nearest dollar.

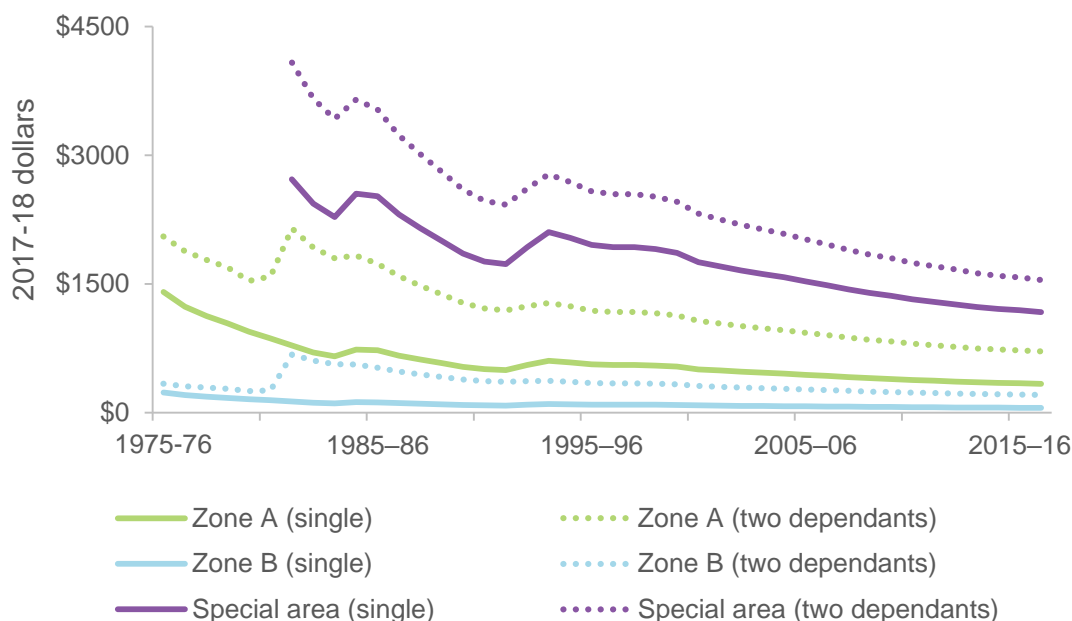
Source: ATO (nd).

The ZTO was previously associated with a wider range of dependant rebates (section 4.2). Some of these rebates more than doubled in nominal value between 1981 and 2013, while the ZTO was largely unchanged. However, the bulk of these concessional rebates were repealed in 2013-14. At present, dependant loadings are only applied to the ‘notional’ rebates for dependent children (which are not indexed) and the invalid and invalid carer offset (which is indexed to CPI but claimed by fewer than 1000 taxpayers also receiving the ZTO).

The creation of the special areas in 1982 substantially increased the offset rate for some residents. The original special area rate was worth more than 10 per cent of after-tax income for an average taxpayer, and the current special area rate is more valuable in real terms than the ordinary Zone B rate has been at *any* point — although the real value of the special area rate is now less than half of its original value (figure 4.8).

- To approximate the same share of after-tax income, the special area offset would have needed to be about \$3140 in 2017-18.
- If adjusted for inflation (using the CPI), the special area offset in 2017-18 would have been about \$2700.

Figure 4.8 Change in the real value of the zone tax offset^a
1975-76 to 2016-17



^a Calculations for two dependants assume both are eligible for the highest rebate.

Sources: ATO (2019b), *Individuals Snapshot table 1*; ABS (*Consumer Price Index, Australia, Mar 2019, Cat. no. 6401.0*).

In sum, concession rates (in real terms) have clearly fallen significantly over time for most recipients. The ZTO has also fallen more as a share of after-tax income than it has in terms of inflation, because real incomes in Australia have increased over the period (that is, incomes have risen considerably faster than inflation).

4.5 Economic and employment effects

Because of the dearth of relevant and readily available data available to analyse the policy (chapter 1), the Commission has considered the in-principle economic effects of the ZTO, as well as the observed effects (where possible).

At a high level, the zone tax offset changes the financial incentives that individuals face when deciding where to live and work. (Box 4.2 steps through how the offset may affect incentives, and what the potential effects are.) In short, the ZTO could encourage businesses or workers to relocate to (or remain in) the zones — although its small size means any such effects are likely to be minor.

Box 4.2 **How might the zone tax offset affect incentives?**

Technically speaking, the ZTO acts as an employment subsidy within the zones (compared with ineligible regions).

The offset increases the financial returns (to employees) for engaging in paid work, and/or reduces the cost (to employers) of hiring a worker, and so it is likely to increase both employer demand for labour and employee supply of labour within zones.

The offset is paid back to employees directly (the ‘accounting incidence’) through their tax return, but the benefit of the subsidy (the ‘economic incidence’) may not accrue to workers. In a flexible labour market, employers can capture *some* of the benefit if they reduce wage rates in response to the existence of the subsidy. Determining who actually benefits from the subsidy depends on the relative elasticities of labour supply and demand.

The elasticities are measures of how responsive employers and workers are to changes in wages. Labour elasticities vary by region, depending on (among other things):

- occupation type (whether workers are skilled or unskilled)
- worker mobility (for example, whether the region is well-connected to larger labour markets)
- labour market rigidities (including minimum wages and employee-employer bargaining power).

The incidence of the concession will determine whether the ZTO encourages workers to relocate to the targeted regions, or encourages workers within the zones (but not in the labour force) to seek paid work. Employment and population in targeted areas could be higher at the expense of other areas.

- If employers do not lower wages to fully ‘capture’ the subsidy, disposable income would be higher within the zones. The ZTO would then create an incentive for workers to move there.
 - If workers are mobile and relocation costs small, the benefits of the wage subsidy would dissipate; employees would relocate to the targeted areas to access higher after-tax incomes, and increased labour supply would drive down the wage premium.
- If employers can capture some part (or all) of the subsidy, the relocation effect would be muted. If the benefit of relocating is pushed below the cost of doing so, there may be no incentive to move. In this case, businesses may choose to hire more workers locally, increasing employment.

Source: Kline and Moretti (2014).

If businesses or workers do relocate in response to the ZTO, there may be wider economic effects outside of the zones that could either increase or decrease the productivity of the Australian economy as a whole. There are also distributional effects. The offset carries a direct cost to governments in lost revenue (irrespective of whether it influences any workers to move to the zones) and that tax revenue could instead be recovered by other tax measures. The offset also provides a small windfall gain to people who would have resided in (or relocated to) the zones irrespective of the ZTO.

To understand the ZTO’s effects at a more detailed level, the Commission has explored its potential impacts (as it currently operates) on:

- population growth within the zones

-
- employment
 - productivity
 - the distribution of benefits and costs.

The Commission has been struck by how little information is available on the ZTO, with very few studies to draw on. Much of the assessment of economic and employment impacts therefore relies on first principles and partial evidence gathered as part of the consultations undertaken for this study. It has also canvassed overseas literature that may be relevant to the ZTO.

Although the Commission considered undertaking a detailed population modelling exercise, as was done for its 2014 study on *Geographic Labour Mobility* (PC 2014), this was not pursued because of a lack of sufficiently granular data. The effect of the ZTO was also considered to be too small to reliably observe over a large area. However, insights from the 2014 study have been drawn on where applicable.

Regional and remote population growth

The ZTO could affect relative rates of population growth in different areas through its effect on wages and real disposable income in remote areas. By increasing the returns to labour within the zones relative to returns outside of the zones, it could encourage individuals to relocate to the zone areas, increasing the in-zone population at the expense of the out-of-zone population (box 4.2). Similarly, it could affect the movement of people *between* the zones (from areas with lower rates to areas with higher rates).

The size of this effect will depend on:

- how important financial incentives are in relocation decisions (in general)
- the size of the wage differential (attributable to the ZTO) between in-zone and out-of-zone areas relative to relocation costs
- how visible that differential is to people who are likely to relocate.

Effect of financial incentives on decisions to relocate

A key question is the extent to which financial incentives (such as higher pay) are sufficient to encourage people to move. Previous Commission research has found that personal factors tend to drive decisions to relocate; particularly life events (such as finishing education) and family circumstances (such as a partner's employment prospects) (PC 2014). Differences in housing, employment, social and economic infrastructure, and a person's skills or level of education, also play a prominent role in choices between different locations (PC 2014). That said, real wage differentials and employment growth do play a role in influencing regional migration within Australia (PC 2014).

However, governments have limited scope to directly influence these decisions. Research on occupation-specific financial incentives shows that small and untargeted incentives are often ineffective in encouraging skilled employees to relocate (box 4.3). Similarly, the Central Land Council (sub. 35, p. 6) provided an example of the challenges in attracting and retaining skilled employees through financial incentives alone.

On average the salaries paid were 25% higher in 2015 ... compared to a similar size entity in the same industry ... [this is] indicative of the salary premium that needs to be paid to attract and retain staff to remote Central Australia. Yet despite this premium staff turnover rates are increasing significantly.

Box 4.3 Financial incentives are often not enough to attract and retain employees in remote areas

In general, small financial incentives are not sufficient to attract or retain workers in remote areas. This can hold true for health professionals (Dussault and Franceschini 2006; Hall et al. 2007), for educators (Kowal, Hassel and Hassel 2008), and for the unemployed (PC 2014). As noted by the World Health Organization (2009, p. 14):

... studies have consistently showed that financial incentives and awards are neither the first nor the most important factor in the decision to leave or stay in a remote or rural area. Moreover, this type of intervention can be very costly, and may not be sustainable in the long run.

Large and targeted financial incentives can be more effective. For example, the Australian Department of Health's General Practitioner Rural Incentives Program is currently accessed by more than 22 000 GPs in rural areas, and Deloitte Access Economics (2011, p. 46) projected that the program would encourage a further 1200 GPs to move to rural areas by 2020. Those incentives are targeted specifically towards health professionals, and currently range between \$4500 and \$60 000 a year (DOH 2019a).

Financial incentives may prove inadequate because they are insufficient to counteract the other factors driving relocation and retention decisions. These include: working and living conditions, community characteristics, career opportunities, other obligations (such as family), and personal values. While some factors are more amenable to government intervention than others (Humphreys et al. 2009), most are not easily altered by making small changes to individuals' financial situations.

Financial incentives may influence mobility for individuals who are otherwise motivated to relocate, but cannot afford relocation costs. The Australian Department of Jobs and Small Business operates some employment programs to address this (DJSB 2018).

Some studies have concluded that 'bundles' of incentives, rather than purely financial ones, are most likely to be effective in prompting relocation decisions (for example, Lehmann, Dieleman and Martineau 2008; WHO 2009). For example, housing availability and affordability can be a limiting factor in decisions to move (DJSB 2018; PC 2014). In some contexts, houses may not be available or affordable; hence, many employers provide housing as part of a salary package. In remote areas, some of these housing benefits can be eligible for fringe benefits tax concessions (chapter 7).

Income tax concessions slowed the rate of population decline when first implemented ...

Kettlewell & Yerokhin (2019) estimated the effect of the original isolated area deductions on population growth along the border between Zone B and out-of-zone areas from 1945, covering the period when the ordinary Zone B concession was at its most valuable. They concluded that the isolated area deductions slowed the rate of population decline within Zone B immediately following their introduction, but also that this effect dissipated over time.

This indicates that the initial windfall of obtaining a (significant) concession is likely to have affected decisions to relocate, but that there is less of an ongoing effect.

... but this does not make the ZTO an effective tool to encourage decentralisation

Based on the evidence described above, the ZTO (as currently constituted) is unlikely to be the driving factor in individuals' decisions about where to live. This conclusion has been reinforced by submissions, with Keith Thompson (sub. 6, p. 3) asserting that '[n]o one has ever relocated purely because of the existing incentive programs. At best, they have been a secondary factor in relocation consideration'.

Other submissions highlighted that the low base rebate in Zone B (\$57) was barely noticeable, let alone capable of providing any kind of incentive to relocate (Murweh Shire Council, sub. 27; Burnie Chamber of Commerce and Industry, sub. 34; PVW Partners, sub. 59).

Kettlewell & Yerokhin (2019, p. 456), also observed that the original Zone B concession slowed regional population decline more than it encouraged population growth. They reasoned that this was because:

... stayers would be expected to have greater knowledge of the payment, may perceive the payment as a signal of government support for their region and would not be subject to the same uncertainty about life in Zone B.

This finding has intuitive appeal; if taken as a policy to mitigate population decline, the original concession directly affected the people whose behaviour it was trying to influence (that is, people in the zones). By contrast, many people outside of the zones are broadly unaware of the ZTO; it is highly unlikely that they would include it as part of their decision making.

The Cox Review (1981, p. 19) also commented on the use of the tax concession as a tool to encourage decentralisation, noting that it was not a transparent tool for doing so, and concluding that:

... whether any benefits from decentralisation warrant the specific allocation of resources may be a matter for judgment but it can be said that the zone allowance is not the best method of affording development assistance.

The effectiveness of a small tax concession in encouraging people to relocate from metropolitan areas to regional and remote Australia therefore appears to be limited. If the ZTO does not encourage people to relocate to remote areas, it functions as a windfall gain for people who already live in the zones or who would choose to relocate anyway. In so doing, it may help *maintain* population in remote areas, slowing population decline at the margin by encouraging existing residents to stay.

Employment

Although the ZTO has little influence on regional population growth, as a wage subsidy it could encourage those already located within a zone to enter employment or to work more hours, if it adequately increased the returns to work.

In ordinary Zone A, the remote area allowance (RAA) largely cancels out this incentive. The RAA is a supplement paid fortnightly to income support recipients (including the unemployed) in ordinary Zone A and the special areas in Zone A and Zone B. It is worth about \$473 a year for a single person, which exceeds the base rate for ordinary Zone A (\$338) but is considerably lower than the special area base rate (\$1173).

For people working part-time, and claiming both an income support payment and a wage, any ZTO claimed is reduced by the amount of RAA received during the year. (The RAA is explained in chapter 6).

All else being equal, this would act as a slight *disincentive* to enter the workforce for unemployed people in ordinary Zone A, and would mute the marginal incentive to work more hours in the special areas. (And of course, these incentives would be swamped by the other motivations people have for seeking or not seeking work).

The Commission has not been presented with any evidence that the ZTO has directly influenced decisions about whether or not to seek employment within the zones, and it seems unlikely that it would have any significant effect.

Productivity

In addition to its direct impacts on population movements and employment, the ZTO may have wider economic effects by influencing labour productivity. The effects will depend on how responsive workers actually are when presented with particular financial incentives, as well as the types of workers and industries in remote areas. On face value though, encouraging workers to relocate from larger cities to the zones is likely to reduce overall productivity.

Many industries, including some service industries, tend to congregate in industry hubs where there are productivity benefits from agglomeration (Kline and Moretti 2014). Workers exiting from these areas can lead to lower productivity. For example, poor access to

professional development can impair the development of skilled workers — and this is often the case in remote areas (as noted by the King Island Chamber of Commerce (sub. 21) and AgForce Queensland (sub. 94); and by examples provided during the Commission’s visits to Darwin and Lord Howe Island).

Unless very precisely defined to address an inefficiency imposed by a market failure or a policy-induced distortion (such as an inefficient burden of income taxation), the ZTO is highly likely to reduce productivity overall. There is nothing to suggest that the ZTO is this well-targeted. It also diverts government expenditure away from other priorities that could be productivity-enhancing, and indirectly necessitates higher taxes on other parts of the economy to finance the tax revenue forgone via the ZTO.

Overall, the ZTO is likely to have a negative effect on productivity, but the magnitude of the impact will be closely linked to the changes in employment and population outlined above. As the Commission considers those effects have been (and remain) small, the negative impact on productivity is likely to have been similarly minor.

Distribution of benefits and costs

Another way to look at the ZTO is to assess how the benefits and costs of the measure are distributed. In the first instance, as discussed in box 4.2, not all of the benefits of the ZTO accrue to employees. At least some benefits will accrue to employers, as they can pay (slightly) lower wages at the margin. Where the benefits of the ZTO do accrue to workers, there are three main distributional impacts.

First, the ZTO can affect high and low income earners within the zones differently. As a flat rebate, the ZTO is (nominally) a progressive concession, being worth more as a proportion of income to lower income earners. However, some taxpayers on particularly low incomes do not receive the full value.

Second, the ZTO may redistribute welfare towards those who hold assets in the zones (from those who do not). The ZTO, designed to compensate people for higher living costs in remote areas, effectively attempts to increase spending power for people in the targeted areas. In principle, it may not be effective in doing so; instead, the returns (particularly in the short term) may be enjoyed by the owners of immobile factors of production (such as landlords, through higher rents). This would mitigate any additional spending power for those claimants of the ZTO.

Third, there are impacts between in-zone and out-of-zone residents, primarily through the tax revenue the government forgoes due to the ZTO. While a relatively minor concession, the tax expenditure could be put towards other Australian government priorities either in remote Australia or elsewhere, such as: improving access to services, addressing entrenched disadvantage, operating employment programs, or implementing productivity-enhancing reforms. The ZTO, in a sense, operates to transfer welfare from non-zone taxpayers to zone

taxpayers (Simon Kerr, sub. 3), affecting the distribution of economic activity across the country as some areas benefit over others.

4.6 Effectiveness of the ZTO

The effectiveness of the ZTO is determined by how well it meets its stated policy objective, as a tax concession provided ‘in recognition’ of the particular disadvantages of life in remote Australia. (Whether or not this is a valid rationale for providing an income tax concession is considered in chapter 5, but it is taken as given for the purposes of this section.)

These disadvantages are generally taken to be: uncongenial climatic conditions, isolation and a high cost of living. In the Commission’s view, the challenges of isolation and climate in remote Australia have diminished over time in absolute terms. In most cases, they can now be ameliorated at a cost: for instance, air conditioning and modern insulation can help to deal with heat and humidity (chapter 2).

Taking a similar approach to the Cox Review (1981, p. 14) the Commission has focused on differences in cost of living as the main basis for the ZTO.

In its assessment, the Commission has focused on concerns with the ZTO as raised by study participants. The main issues are that:

- the zone boundaries are out of date, and include areas that are no longer isolated while excluding other genuinely remote areas
- the size of the concession has not kept pace with changes in the cost of living and is inadequate to compensate for the disadvantages faced by residents of remote areas
- the ZTO is too small a concession to encourage people to move to the zones from other parts of Australia.

The ZTO boundaries are out of date

Barring some minor inclusions (such as some isolated islands), the outer border of the ZTO zones has been unchanged since 1945. Against a backdrop of significant transformation in remote Australia (chapter 2), some areas covered by the ZTO are clearly no longer ‘isolated’, whereas parts of Australia outside of the zones have become more so, as services have been rationalised and populations are now increasingly concentrated in cities and regional centres (at the expense of smaller towns).

In assessing whether the ZTO is well-targeted against its current rationale, the Commission has used ABS remoteness areas to help determine what areas are considered remote in contemporary Australia (chapter 1) (ABS 2018c).

Change in remote Australia has created anomalies in the boundaries

Division of the eligible area into multiple zones is intended to align the value of the offset against the relative disadvantage of different areas. In particular, the designation of special areas recognises that there are large disparities in the cost of living *within* remote Australia — disparities are driven less by latitude, and more by access to (and distance from) regional centres, and the availability of services.

Notwithstanding a number of data limitations, the Commission's analysis of cost of living data has provided some evidence that the current zones (in aggregate) do reflect differences in cost of living — the cost of living in much of ordinary Zone A and the special areas of both zones is higher than in major cities (appendix B). However, the cost of living in some regional centres in the zones is no higher than in their respective capitals.

A number of submissions have highlighted anomalies in the current boundaries. The Isolated Children's Parents' Association of Australia (sub. 74, pp. 2–3) observed that towns with vastly different circumstances are eligible for the same ZTO rate, commenting that the Queensland part of Zone A includes:

... Camooweal, Cloncurry and Mount Isa – the infrastructure, business, travel and education opportunities along with cost of living in these three towns are vastly different but all receive the same Zone Tax Offset. Mount Isa is a regional town with a population close to 22,000, a regional airport with commercial flights, several schools (both primary and secondary) and numerous businesses. Cloncurry has a population of approximately 2719. Camooweal, 200kms away from Mount Isa, has a population of 208 and is a significantly smaller town, with limited services or infrastructure in or surrounding the town. Yet these towns all fall under the same zone for the ZTO.

The Commission's analysis of cost of living data supports the premise that there is significant variation *within* the current zones. For example, Mount Isa (ordinary Zone A) had a price level only 2.6 per cent higher than Brisbane. By contrast, price levels for towns in ordinary Zone A in Western Australia were more than 10 per cent higher than for Perth.

Other anomalies were brought to the Commission's attention during its regional visits. In South Australia, the march of time has led to perverse outcomes, where some outback towns have grown substantially since 1981 (box 4.4).

The method of defining the 'special areas' within the zones, particularly the use of a fixed distance by 'shortest practicable surface route', introduces some inconsistencies. A particular distance may take longer to cover on the rougher roads found in more remote areas. What's more, some roads may be impassable for part of the year.

Box 4.4 **Anomalous boundaries in South Australia: a case study**

In South Australia, the nearest regional centre for the towns of Roxby Downs (population 3600) and Woomera (146) is Port Augusta (12 900). Both Roxby Downs and Woomera are located in Zone B for the purposes of the zone tax offset. Because Port Augusta had a population exceeding 2500 in the 1981 Census, Roxby Downs (259 km by road from Port Augusta) falls within the special area and qualifies for the larger tax concession — while Woomera, 183 km from Port Augusta along the same road, does not.

Woomera's population has declined since 1981, and most services have since been reduced or withdrawn from the town. Many Woomera residents now travel to Roxby Downs to access services. The ABS classifies Woomera as a *very remote* area, and Defence employees posted there are eligible for the maximum district allowance rate.

Roxby Downs, which was founded to service the Olympic Dam uranium mine, is now home to a supermarket, a leisure centre, and a local GP. It is classified only as a *remote* area by the ABS. If the boundaries of the special areas were to be updated based on 2016 census populations (and the original cut-offs), Roxby Downs itself would now be large enough to be excluded from the special area.

This begs the question of whether the levels of population used to exclude places from the 'special area' remain appropriate. Although Roxby Downs has more amenities than Woomera, it lacks specialist medical services — even Port Augusta does not have the medical facilities to deal with all emergencies or chronic conditions. Nor does Port Augusta have a university — students have to move to Whyalla or Adelaide. For people in all these places, business meetings and professional development (not to mention family visits) often take place in Adelaide.

The status of Nhulunbuy (Northern Territory) is another oddity. A mining town — built around the BHP bauxite mine and (later) alumina smelter — Nhulunbuy's population exceeded 2500 people in 1981. However, in light of Nhulunbuy's 'particular isolation', the Australian Government decided (via legislation) to deem its population to be less than 2500 in 1991, resulting in Nhulunbuy (and surrounding areas) becoming eligible for the special area rebate.³⁰ This remains the case today.

Some currently eligible areas cannot be considered as remote

Many submissions held the zones included areas that are no longer remote or isolated. In particular, participants noted the inclusion of larger regional cities (specifically Townsville, Cairns, Darwin and Mackay) and argued that they are not as isolated as other areas eligible for the ZTO.³¹

As highlighted in chapter 2, these coastal areas have developed considerably since the 1940s (a case study on Cairns is provided in box 2.2). Cairns and Darwin each have international airports and populations of more than 130 000 people. Both places, along with Townsville

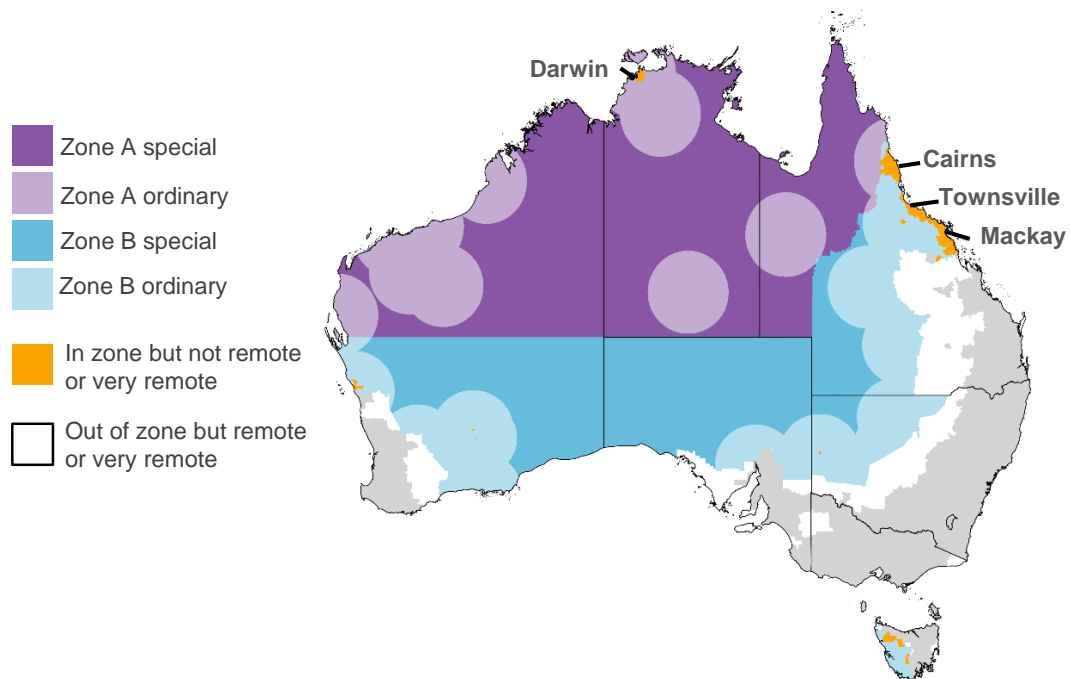
³⁰ *Taxation Laws Amendment Act (No. 4) 1990* (Cth).

³¹ Burketown Caravan Park, sub. 22; Burke Shire Council, sub. 42; Cloncurry Shire Council, sub. 45; RDA Tasmania, sub. 69; Chartered Accountants Australia and New Zealand, sub. 73; WALGA, sub. 79.

(population of almost 180 000) and Mackay (nearly 80 000), are regional cities in their own right, with easy access to key services and well-developed retail markets, and are well-connected to other capital cities.

A more contemporary measure of remoteness, published and periodically updated by the ABS, defines much of the north-east coast of Queensland (and Darwin itself) as being *outer regional*, and not *remote* or *very remote* (figure 4.9). Similarly, the Commission has found that the cost of living in ordinary Zone B is (on average) no more expensive than in the respective capital cities. Again, however, this hides divergence *within* the zones — the cost of living in ordinary Zone B in Queensland is generally no more expensive than in Brisbane, but the cost of living in ordinary Zone B in Western Australia does appear to be higher than in Perth.

Figure 4.9 Alignment between the zones and ABS remoteness areas



Note: Special area boundaries are based on the 'shortest practicable surface route' from an urban centre. The map is approximate only. Special Zone A also includes: the Australian Antarctic Territory, Christmas Island, the Cocos (Keeling) Islands, the Territory of Heard Island and McDonald Islands, Lord Howe Island, Macquarie Island and Norfolk Island.

Sources: Commission estimates based on ABS (2018c) and *Income Tax Assessment Act 1936* (Cth), s. 79A; schedule 2.

For Darwin, located in ordinary Zone A, the story is more complex. A 2011 study found Darwin to be the third-most expensive capital city, behind Sydney and Canberra. However, consumer price inflation in Darwin has been lower than in other capital cities since 2011. Overall, the available data indicate that Darwin prices today appear comparable to those in most other capitals (appendix B).

Similarly, some *very remote* areas (based on the ABS definition) receive a small rebate as part of Zone B (particularly, parts of western New South Wales and South Australia). For example, Wilcannia (in New South Wales), which is classified as *very remote* by the ABS, is eligible for the same payment rate as Townsville, which is classified as *outer regional* (figure 4.5).

Bringing the zone boundaries up to date

In summary, the basis for setting the zone boundaries is now outdated, and the current zones no longer reflect the policy objective they were intended to serve. Growth in some regional cities means they can no longer be considered as isolated. Moreover, in many areas eligible for the ZTO, the cost of living appears to be similar to (or lower than) that in the respective state capital. Change in other areas has led to anomalies along the zone borders, while several ineligible places appear to be as (if not more) remote than many eligible areas.

Were the ZTO to be maintained, the boundaries for eligibility would need to be redrawn. A number of study participants advocated for piecemeal expansion of the ZTO to particular areas, including Kangaroo Island (Gail Lane, sub. 5; Saskia Gerhardy, sub. 7; Lisa Thompson, sub. 9) and additional parts of Tasmania (Tasmanian Government, sub. 24; Burnie Chamber of Commerce and Industry, sub. 34; RDA Tasmania, sub. 69). And as noted above, many others suggested that the cities in the zones (Townsville, Cairns, Darwin and Mackay) should simply be carved out.

Moreover, the legislation itself is thoroughly outdated; it defines the zones with respect to local government areas that have since been abolished, parts of the Rabbit Proof Fence in Western Australia, and two ‘trigonometrical stations’ in Tasmania.³² These seemingly-arbitrary boundaries reflect the realities of policymaking in the 1940s — indeed, the lack of a scientific basis for the zone boundaries has since been lamented (Fadden 1956).

In contrast to the 1940s, there are now more rigorous tools available to define remoteness, and the zone boundaries could easily be updated accordingly. One possible approach is to base eligibility on the ABS remoteness areas, as proposed by Manning (2013) and multiple submissions to this study.³³

Doing so would align better with the policy rationale. The Commission has found that the cost of living is (on average) higher in *remote* areas than in capital cities — and higher still in *very remote* areas. By contrast, no such cost of living difference exists between the current (ordinary) Zone B and the capital cities.

The ABS classifications have further benefits. They are widely used, including by State and Territory governments and the Commonwealth Grants Commission (chapter 3). The

³² Schedule 2 of the *Income Tax Assessment Act 1936* (Cth).

³³ RDA Tasmania, sub. 69; CPA Australia, sub. 72; Chartered Accountants Australia and New Zealand, sub. 73; WALGA, sub. 79; Department of Primary Industries and Regional Development (WA), sub. 82.

remoteness areas are updated after each census using a transparent and well-understood methodology; this would be a contemporary and systematic basis to ensure the boundaries do not become outdated while allowing for better analysis and assessment of the policy.

No boundary can be perfect, and the ABS remoteness areas are not without their own flaws. The categories were designed to process and present data (such as data on the relative costs of service delivery) on a geographical basis, rather than to assess eligibility for particular government policies. As such:

- they create very granular boundaries, and the line between *remote* or *very remote* areas and the rest of Australia is not always clearly linked to noticeable differences in circumstances.
- some towns classified as *outer regional* areas are ensconced within *very remote* areas, creating ‘hard borders’ on the edge of some towns, while others are internally divided — Bourke is classified as a *remote* area, but the fewer residents of North Bourke (7 km along the road, across the Darling River) reside in a *very remote* area.

Chapter 1 introduced other options for defining remoteness: the Modified Monash Model, and the district loadings calculated by the Australian and some State and Territory governments in determining district allowances for public sector employees.

The Modified Monash Model is built off the ABS remoteness areas, with the main difference being that it further delineates more categories within the ABS definitions of *inner* and *outer regional* areas. The definitions of *remote* and *very remote* areas are very similar, although offshore islands are treated slightly differently. As such, it does not represent a tangible improvement on the ABS remoteness areas for this purpose.

Remote allowances for public service employees are calculated on different metrics by different governments, but this process generally involves an assessment of climate, population density and access to transport. In general, these calculations are done only for towns where governments employ staff. This would be a more onerous and less systematic approach, introducing further arbitrary boundaries and the need for ‘judgment calls’.

Overall, the Commission considers the ABS remoteness areas to be the preferable option, and that it would represent a more suitable basis for defining zone boundaries than the current approach.

What would the impact be?

There are two practical ways to apply the ABS remoteness areas, which would rationalise the number of offset rates from three down to one or two.

- Providing a smaller concession (the ordinary Zone A rate) to residents of *remote* areas and a larger concession (the special area rate) to *very remote* areas.
 - This would result in about 220 000 taxpayers being eligible for the offset (down from 480 000 who claimed the ZTO in 2016-17), but at a total cost of about \$160 million (slightly higher than the current cost of the concession).
- Providing a concession to *very remote* areas only, set at the special area rate.
 - About 60 000 taxpayers would be eligible, at a cost of about \$70 million a year.

Providing the ZTO to both *remote* areas and *very remote* areas would halve the number of people claiming the ZTO, but would not reduce the cost of the concession. In fact, it would expand eligibility to areas that are not currently within the boundaries (such as Port Lincoln, Kangaroo Island and St George — the white areas of figure 4.9).

The other option would further limit the concession to just *very remote* areas. This would target those areas where costs of living most clearly exceed those in the rest of Australia, and where access to services is most difficult. It would also reduce the number of concession rates from three to one, with recipients eligible for a single flat offset rate equal to the current special area payment (\$1173, plus any dependant rebates). Restricting the ZTO to *very remote* areas would not expand eligibility for the concession and would exclude a number of areas that are currently eligible, including:

- the regional cities (Townsville, Cairns, Darwin and Mackay)
- larger towns and regional centres, including Broken Hill and Bourke (New South Wales), Kalgoorlie-Boulder and Kambalda West (Western Australia), Mount Isa (Queensland), and Katherine and Alice Springs (Northern Territory)
- Western Tasmania, parts of Western New South Wales, and areas of the Northern Territory (including between Darwin and Katherine).

A move to *very remote* areas would represent a significant improvement on the current boundaries. It would exclude many areas that are no longer isolated, while limiting concession access to those most disadvantaged by remoteness.

DRAFT FINDING 4.1

The remoteness areas published by the Australian Bureau of Statistics would be a more suitable basis for defining zone tax offset boundaries. They are widely used, including by State governments and the Commonwealth Grants Commission, and are updated after each census using a transparent and well-understood methodology.

Other issues with the ZTO

The ZTO is a modest sum for most claimants

A near-universal view in submissions to this study was that the rates of the ZTO are inadequate in light of the higher cost of living and other disadvantages of life in remote areas.³⁴ Many participants made reference to specific costs — including freight, travel costs (such as fuel and flights), higher costs of insurance, lack of choice, and poor access to services — which (they contended) vastly outweighed the value of the ZTO. One Kalgoorlie-based submitter in Zone B noted:

The rebate is a joke. Its barely worth ticking the box. Given the [higher] cost of living here is in the thousands, the rebate is a token amount. (James Potter, sub. 25, p. 2)

As concluded in section 4.4, the size of the rebate has fallen significantly in real terms for most claimants of the ZTO. Several submissions also pointed to the decline in the real value of the ZTO over time as evidence that the ZTO had fallen behind (Capricorn Enterprise, sub. 47; King Island Council, sub. 75; Department of Primary Industries and Regional Development (WA), sub. 82).

Were the ZTO intended to fully compensate residents for higher costs of living, the rates of ZTO would generally be inadequate for this purpose. But it is not clear that the ZTO was ever intended to do so; rather, it was designed to reduce income taxes on the higher wages paid by employers in remote areas, rather than to provide ‘full compensation’ for any and all differences.

Even so, it is clear that the ordinary Zone B rebate is without merit, being a small payment provided largely to places that are not especially disadvantaged. Providing a practically unnoticeable concession to a large number of people comes at a cost to governments, but has little meaningful benefit for those recipients. Governments would do better to make a larger concession available to those living where the costs of remoteness are highest, and abolishing the Zone B concession.

Some claimants do not receive the full value of the ZTO. PVW Partners (sub. 59, p. 3) pointed out that, because the ZTO is a non-refundable tax offset, it is ‘only of value to individuals that generate taxable income that gives rise to an income tax liability of an amount at least equal to their ZTO entitlement’. This also impairs the ability of the ZTO to function as an assistance measure, as it is not well-targeted to taxpayers on lower incomes — although the RAA would be available to many of these individuals (chapter 6).

³⁴ Alexander Fullarton, sub. 1; Hits Radio, sub. 11; Julie Fullarton, sub. 12; John McLaren, sub. 14; Michelle Landry MP, Federal Member for Capricornia, sub. 16; Carpentaria Shire Council, sub. 20; Murweh Shire Council, sub. 27; Capricorn Enterprise, sub. 47; Northern Territory Government, sub. 60; Ernie and Kylie Camp, sub. 64; Local Government Association of the Northern Territory, sub. 66; Isolated Children’s Parents’ Association of Australia, sub. 74; King Island Council, sub. 75; Optitax, sub. 77; WALGA, sub. 79; Department of Primary Industries and Regional Development (WA), sub. 82; National Farmers’ Federation, sub. 85; Prof Fiona Haslam-McKenzie, sub. 89.

The ZTO does little to promote regional development

Submissions to this study also claimed that the ZTO was too small to encourage people to move to the zones from elsewhere in Australia.³⁵

The question of whether the ZTO encourages people to relocate to live within the zones has been covered in section 4.5, as part of the assessment of its economic and employment effects. As currently implemented, the ZTO is a minor tax concession provided directly to employees (usually) once a year where specific eligibility criteria are met. The Commission found little to suggest that the ZTO affects where people choose to live and work; hence, its effectiveness as a regional development instrument is similarly limited.

Some study participants said that if the ZTO was restored to its original value (in real terms), it could be adequate to encourage people to relocate to remote areas. The Burnie Chamber of Commerce and Industry (sub. 34, p. 2) recommended increasing the Zone B rate to \$1500 a year, in order to provide a ‘meaningful incentive’. The Townsville Chamber of Commerce (sub. 37) similarly argued that rates of \$1000 for ‘regional areas’ and \$5000 for ‘remote areas’ were necessary if the ZTO were to function as an incentive.

Even if the rates were lifted to their highest previous levels, it is not apparent that this would meaningfully influence wage-setting and employment decisions. As discussed in section 4.5, many people decide where to live based on liveability (including access to services) and lifestyle. These factors cannot be addressed by a tax concession alone.

Back in 1945, members of Parliament were already sceptical about the ability of the concession to encourage people to relocate, when considered against the perceived lack of amenity in remote areas. The then-deputy leader of the opposition Liberal party, Eric Harrison (1945, p. 1393) said:

Honorable members who have visited the Northern Territory and other regions included in the proposed zones will agree with me that many facilities other than a small measure of taxation relief will be required to encourage settlement there. ... Do honorable members suggest that an allowance of £40 or £20 will encourage people to make their homes in the outback? The argument is farcical.

Restoring the ordinary Zone A rebate to \$1850, the ordinary Zone B rate to \$950 and the special area rate to \$3140 (without adjusting eligibility) would increase the forgone revenue from the ZTO to more than \$500 million a year. At this point, it becomes especially pertinent to consider whether that money could be better spent elsewhere, especially if other tools are more cost-effective at achieving any decentralisation objective.

³⁵ Keith Thompson, sub. 6; Burnie Chamber of Commerce and Industry, sub. 34; Townsville Chamber of Commerce, sub. 37; Burke Shire Council, sub. 42; Capricorn Enterprise, sub. 47; Ernie and Kylie Camp, sub. 64; Local Government Association of the Northern Territory, sub. 66; National Farmers’ Federation, sub. 85; Prof Fiona Haslam-McKenzie, sub. 89.

DRAFT FINDING 4.2

The zone tax offset (ZTO) is flawed and outdated.

- Eligibility has not kept up with change in remote Australia, and nearly half of ZTO claimants live in large coastal regional centres.
- Inflation and growth in wages have substantially eroded the value of the ZTO. The economic and employment impacts of the concession are likely to be small, and there is no evidence to suggest that the ZTO currently affects where people choose to live and work.

5 The future of the ZTO

Key points

- The zone tax offset (ZTO) is ineffective and outdated, and there is no compelling justification for remote area income tax concessions in contemporary Australia.
 - Higher living costs or other aspects of life in remote areas do not warrant compensation from other taxpayers. Australians face a range of advantages and disadvantages in where they live, and will typically locate in the area they value most highly. Many residents of remote Australia already receive more generous remuneration to work in those areas. There is no general role for the Australian Government to augment these dynamics.
 - Communities likewise grow or shrink based on their advantages and disadvantages. Attempts by governments to artificially create an advantage for a remote community, or attract people to live in high-cost areas through tax concessions, typically result in net losses to the broader Australian community. Moreover, a tax offset is not well suited for encouraging people to move to particular areas.
 - Any inequities or economic distortions imposed by the income tax system in remote areas are likely to be small and are not able to be addressed efficiently by a tax offset.
- More generally, tax concessions are less transparent than direct expenditure and increase the complexity and efficiency costs of the tax system.
- The ZTO should be abolished. Doing so would have few significant impacts.
 - The ZTO is linked to the overseas forces tax offset (OFTO), which is estimated to be available to fewer than 1000 taxpayers (mostly Australian Defence Force employees). The OFTO is similarly outdated, and lacks a compelling justification. It should be repealed along with the ZTO.
- There is no credible case for the Government to provide company tax offsets specifically to businesses in remote areas. Governments should focus on creating successful business environments regardless of their location.

The terms of reference ask the Commission to determine the appropriate ongoing form and function of the zone tax offset (ZTO).

The ZTO was first established in 1945 as a tax deduction available to taxpayers in isolated parts of Australia (the zones) in recognition of the disadvantages they faced. In spite of ongoing change in remote Australia (chapter 2), the Australian Government has made only minor changes to the outer zone boundaries and the concession rates have been unchanged in nominal terms since 1993-94.

Chapter 4 examined the operation of the ZTO, and concluded that the offset (as currently designed) is ineffective and outdated.

- Most significantly, the zones have not kept up with change in remote Australia; some areas that are no longer isolated remain eligible for the ZTO, while nearly half of the taxpayers in (ABS defined) *remote* and *very remote* areas are not eligible.
- There is also no evidence to suggest that the ZTO currently affects where people choose to live and work.

While the ZTO is not fulfilling its objectives, the terms of reference also ask whether in a contemporary Australia the objectives remain appropriate. Most participants argued that the ZTO should continue in some form, but some gave the counterview that taxpayers in general should not be compensating taxpayers in remote areas for the disadvantages associated with where they live (box 5.1).

Box 5.1 Participants' views on the future of the zone tax offset

Most participants who commented on the ZTO argued for its continuation in some form. For example, the National Farmers' Federation (sub. 85, p. 2) recommended that the ZTO be 'retained and increased to provide meaningful compensation for the challenges of living in remote areas'. The Northern Territory Government (sub. 60, p. 21) recommended that the ZTO be retained but also expanded, increased and reviewed periodically.

The NT Government strongly recommends the ZTO ... be kept, its scope expanded, its level increased to more appropriately reflect the degree of hardship, and that it should have a pre-determined escalation factor and periodic reviews of its appropriateness and effectiveness in achieving its compensation, regional development and incentivising policy objectives.

Similarly, the NWQROC (sub. 33, p. 6) recommended that the ZTO be increased and annually indexed, as well as 'ensuring that the offset is returned to individuals at regular intervals rather than annually'.

Other submissions emphasised the importance of the ZTO, and the adverse effect of losing it. Carnarvon Tackle and Marine (sub. 19, p. 1) said:

Please do not take away or reduce the Tax Allowance for us that live above 26 parallel. The amount of Royalty money that comes out of the North West we should up here have the best hospitals, the best schools, the best age care but we don't - often the worst. ... Please consider your decision very carefully and the impact of what it would do to all of us that live in remote towns.

However, CPA Australia (sub. 72) argued that assistance could be provided more effectively as a direct transfer payment, and that repealing the ZTO would reduce unnecessary complexity in the tax system. And Simon Kerr (sub 3, p. 1) argued that the ZTO is wholly without merit.

The zone tax offset is effectively a payment to some taxpayers who choose to live part of the year further away from most taxpayers, funded by the latter. This is of course geographic discrimination, and I would argue inequitable.

This chapter assesses whether there is a role for the ZTO or a similar tax concession in contemporary Australia (section 5.1). It then considers whether there is any case for providing similar support to businesses in remote areas (section 5.2).

5.1 Is there a role for the ZTO in contemporary Australia?

This section provides the Commission’s assessment of the merits of the justifications advanced for the ZTO, namely:

- as compensation for the disadvantages of living in remote areas — such as an uncongenial climate, isolation and a higher cost of living
- to support regional economic development, including to encourage population growth in certain areas
- tax system arguments to improve equity in, or the efficiency of, income taxation.

This list is not exhaustive; other rationales have received at least some support over the years. For example, prominent in the early years of the ZTO was the idea of ‘populate or perish’: that the purported defence risk of a sparsely populated north justified a tax concession to encourage Australians to relocate.³⁶ These arguments are clearly outdated and lack merit in contemporary Australia. They have not been considered further.

The Commission’s approach

As discussed in chapter 1, the Commission has had regard for the ZTO’s place in the overall tax and transfer system, and within the existing range of Australian, State and Territory government measures that provide assistance to individuals, businesses and communities in regional and remote Australia (chapter 3).

The ZTO is a small concession that sits alongside those existing systems. Just 3 per cent of taxpayers claim the ZTO and, for 80 per cent of them, the concession is worth less than 1 per cent of their after-tax income (chapter 4). For this study, the Commission has taken the architecture of the tax and transfer system, and of other government assistance to regional and remote Australia, as given. The Commission has instead examined whether or not the ZTO is warranted as an additional support measure by considering:

- whether the ZTO addresses a significant economic distortion that is impairing the efficient functioning of the economy and/or an explicit social equity objective
- whether the benefits of government intervention to address such a distortion or objective outweigh its costs, and whether an income tax concession is the best available way to address that policy issue (box 5.2).

³⁶ During a 1956 debate on amending the ZTO’s precursor, one member of Parliament said: ‘I do entreat the Government to be bold in its outlook towards the north of Australia because we cannot continue, as the years pass, to have a country populated by 30,000 or 40,000 people which many millions of people to the north of us believe can be used to greater advantage by those who are crying out for space’ (Chaney 1956, p. 1792).

Box 5.2 **The merits of income tax offsets as policy instruments**

Tax offsets are often provided to address structural distortions or inequities caused by the income tax system, or to accommodate interactions between taxes and income support transfers.

Some tax offsets are designed to provide assistance to specified groups. The Henry Tax Review (Henry 2009a) noted that they should be provided only where an ongoing need cannot be better met by other means (such as through other government programs), and that such assistance is ‘not transparent, timely or well targeted’ (Henry 2009b, p. 30). The Cox Review into the zone tax offset similarly noted that, compared with other policy tools, tax concessions ‘tend to disguise the costs [of a policy] and make evaluation of the costs and benefits more difficult’ (Cox et al. 1981, p. 19).

Other problematic aspects or limitations of tax offsets are that they:

- introduce complexity to the tax system (Bain 2010)
- are only available to those who file tax returns and are limited in their capacity to benefit some groups (such as retired people, the unemployed, or low-income Australians)
- require policymakers to devise arbitrary boundaries for eligibility, which both can create anomalies between people who benefit and those who do not, and encourage individuals to restructure their affairs to qualify for an offset (Sadiq 2008)
- are generally less transparent than direct expenditure, which is subject to an appropriation by Parliament and can be publicly scrutinised (Sadiq 2008).

Compensation for the disadvantages of life in remote areas

What is the suggested justification?

The ZTO’s enabling legislation states that it is provided as a form of compensation ‘in recognition of the disadvantages ... because of the uncongenial climatic conditions, isolation and high cost of living’ in certain parts of Australia.³⁷

Agforce Queensland (sub. 94, p. 1) said ‘The original intent of the policy as outlined by Chifley in 1945 is still supported’. Many other submissions likewise supported this as a justification for the ZTO.³⁸

People weigh up the pros and cons of residing in different places

Chapter 2 confirmed that, although the hardships of living in remote Australia have diminished over time, disadvantages remain that affect the lives of many remote residents.

- Residents of remote areas pay higher prices for many goods including food, transport and fuel.

³⁷ *Income Tax Assessment Act 1936* (Cth), s. 79A(1).

³⁸ For example: John McLaren, sub. 14; Murweh Shire Council, sub. 27; Central Land Council, sub. 35; Townsville City Council, sub. 68; WALGA, sub. 79; Department of Primary Industries and Regional Development (WA), sub. 82; Prof Fiona Haslam-McKenzie, sub. 89.

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- Many services (such as education or specialist health services) are more difficult to access, necessitating long drives or expensive flights.
 - Harsh climates can impose further costs and disadvantages, for example in areas that are cut off regularly by torrential rain.

Chapter 2 also pointed to the positive aspects of life in remote Australia and the reasons why Australians choose to live and work there. For example, many residents value the lifestyle of remote places, including the pace of life, the lack of congestion and access to nature. And where residents do not particularly enjoy the nature of remote living, they may be well-remunerated for working in those areas — chapter 2 pointed to a range of employers, including State and Territory governments, that offer higher wages, allowances and conditions to workers in remote Australia.

All these advantages and disadvantages would factor into the decisions households make about where to live. People would generally be expected to choose a remote location if they thought they and their family would be better off there. And if work opportunities or the disadvantages of life there were to change such that those disadvantages outweigh the benefits, then households would generally be expected to move away.

Demographic data reveal that people tend to migrate in and out of remote areas at particular stages in their life, demonstrating relatively high mobility in remote areas (chapter 2). Participants also noted that many people move to remote areas in their working years specifically for the remuneration and employment opportunities on offer — the Northern Territory Government (sub. 60, p. 5) submitted that ‘more of the working age population is in the Territory to work’ compared with the rest of Australia.

If Australians are able to exercise choice in moving to remote areas in pursuit of opportunity — and can leave if and when they are better off doing so — there is no valid case for compensation for the disadvantages of remote living from the Australian Government, whether in the form of the ZTO or other measures.

What if remote residents cannot move?

While most Australians are able to choose where they live, some people in remote Australia could find relocation more difficult, whether for reasons of cost, or of feeling personally or culturally anchored in a place. People in such circumstances would have less choice about where they live and, thus, less scope to avoid the disadvantages of life in remote Australia.

This argument is most compelling in relation to Indigenous Australians’ attachment to country. Given that the Commission estimates that only 24 000 of the 480 000 ZTO claimants are Indigenous Australians (chapter 4), this is not a strong justification for the ZTO. Instead, as discussed in chapter 6, the issue of mobility is more significant when considering the merits of the remote area allowance (RAA), for which the majority of recipients are Indigenous Australians.

The Commission's analysis has also shown that individuals on lower incomes tend to be less mobile overall (chapter 2). Moving is costly, and imposes an especially large burden on low-income households — particularly in moving a long distance from a remote area to a city or regional centre. Homeowners in small or declining towns may be unable to sell their homes, or the returns from the sale may not enable them to afford housing elsewhere.

These less-mobile households are poorly targeted by a measure like the ZTO. Not only is a tax offset not available to households whose primary income is through the welfare system, but income-earners must owe 'enough tax' to receive the full benefit of the offset. And more broadly, the ZTO is available to many workers who are already compensated by their employers for the disadvantages of living and working in remote areas.

Governments already provide a range of targeted support to address some of the specific disadvantages faced by residents of remote areas. These include patient travel assistance schemes, to help remote residents access healthcare, and allowances for isolated children to access education (chapter 3). Rather than being broadly available, these measures are more appropriately targeted on the basis of need.³⁹

In sum, the Commission does not consider that the disadvantages of life in remote Australia justify a generally-available income tax concession.

Regional development

Several participants advocated the ZTO as a means of supporting regional development.⁴⁰ The general view is that the ZTO should provide a financial incentive that encourages people to move to, work and live in regional and remote Australia, thereby helping to fill labour shortages and supporting economic development in those areas.⁴¹

What are the suggested justifications?

Many see a need to exploit the 'untapped potential' in remote parts of Australia, which has been used to help justify the ZTO over its lifetime. In 1956, Nigel Drury MP (1956, p. 1775) commented in Parliament that:

Every honorable member will agree, for I do not think that this is a party-political issue, that if we are to develop this country we must not only increase our population but also make the most

³⁹ Some participants have argued that the current schemes are inadequate. For example Lisa Thompson (sub. 9) viewed that the South Australian Patient Assistance Transport Scheme as being unsatisfactory for Kangaroo Island residents. However, to the extent that such measures are inadequate, the appropriate response would be for the relevant governments to improve those measures, not to provide a generally-available tax concession.

⁴⁰ For the purposes of this discussion, this encompasses both regional and remote parts of Australia.

⁴¹ Similar arguments have been raised in relation to the fringe benefits tax (FBT) remote area concessions. These are discussed in more detail in chapter 7.

of our resources, many of which are as yet untapped. Great areas of Australia are not adequately populated and developed. Some are not even partially developed.

Some people still view fulfilment of economic potential in certain regions as an imperative, arguing that developing those areas is in the broader national interest. Submissions to this study suggested that the ZTO should be part of a suite of government measures to spur the economic development of remote areas (box 5.3). Then-Senator the Hon. Ian Macdonald (2018) contended that a properly-constructed ZTO:

... would encourage many Australians to move to the remote parts of our country to where we know the wealth is in agriculture and mining is waiting to be extracted, where what we need most is the people there to do it.

Box 5.3 Participant views on regional development

Many submissions held that regional development provided a justification for the zone tax offset. For example, the Indigenous Reference Group to the Ministerial Forum on Northern Development (sub 87, p. 27) argued that:

[i]t is in the National interest to grow the Northern Australian economy ... significant underutilised natural resources in close proximity to expanding Asian markets [offer] significant opportunity to grow employment, incomes and export earnings in and from Northern Australia.

This imperative was also stated by Keith Thompson (sub. 6, p. 3).

We owe the responsible development of our interior not only to our own future generations but to the world. We have the potential to be able to feed the world.

The Northern Territory Government (sub. 60, p. 13) pointed to the economic output of northern Australia, and the potential for further growth, as a basis for specific policy initiatives.

Northern Australia contributed 10.7 per cent (\$187 billion) of Australia's GDP [gross domestic product] in 2016-17 and has the potential for significant growth based on abundant natural resources and proximity to key trading markets. To unlock this potential requires access to labour (preferably resident rather than FIFO [fly-in fly-out]) and capital, and policy initiatives that support sustainable jobs and population growth.

Many other submissions from regional areas emphasised specific development opportunities. Both Mareeba Shire Council (sub. 13) and South West Regional Economic Development (sub. 86) pointed to the potential for their regions to develop into strategic hubs, if provided with government incentives and assistance. Balonne Shire Council (sub. 28, p. 1) noted the potential for growth, and the need to attract workers (skilled workers in particular) to realise that potential.

To achieve more value-added opportunities in these regions, opportunities and with that human capital are required and hence, make the region more attractive for these groups who in turn, will help diversify and expand these regional economies.

Several study participants also saw population growth (or retention) in remote areas as benefitting existing residents in particular communities. Many towns are grappling with declining populations, which can lead to the gradual withdrawal of services and threaten the viability of local businesses (chapter 2). Some felt that a higher ZTO could help encourage people to repopulate those areas — not just to work, but to establish their lives and to

reinvigorate those communities. The Burnie Chamber of Commerce and Industry (sub 34, p. 1) said:

We want to encourage people to help grow local economies, become part of the fabric of society in these remote areas and build communities.

Some study participants also argued that the ZTO, as a measure to promote regional development, could indirectly benefit people in cities. The Northern Territory Government (sub. 60, p. 13) submitted that:

... incentivising population growth in regional and remote areas can contribute to mitigating the pressures of overpopulation currently being felt in some regions of Australia. These pressures contribute to congestion and can impose a significant cost on people living in major cities and urban areas. The national cost of this congestion in Australia's capital cities is estimated at \$25 billion per annum, with Infrastructure Australia estimating that, unless action is taken, congestion may cost Australia up to \$53 billion by 2031.

What is the role for government in regional development?

The Commission considered the role of government in regional development as part of its 2017 *Transitioning Regional Economies* study (PC 2017; box 5.4).

The Commission sees a general role for governments to provide public services to people living in regional and remote areas — much as they do for city-dwellers. This might involve planning for and providing infrastructure, delivering essential services, supporting disadvantaged people wherever they reside, and removing unnecessary impediments to economic development.

Beyond this, the role of the Australian Government to intervene in support of regional development is limited. The Australian Government's Northern Australia White Paper recognised that governments alone cannot develop Australia's north, with the role of government being to facilitate, rather than direct, economic development.

Governments' role is to create successful business environments, not successful businesses. This is best achieved through prudent economic policies, the right infrastructure to get things moving, regulation that minimises costs on business, a workforce with the right skills, and basic research necessary for business to identify opportunities in the north. (Australian Government 2015, p. 2)

Accordingly, the Commission considers that towns and regions should be allowed to develop and prosper, or not, according to their own attributes. The growth or decline of particular areas generally reflects their intrinsic features and economic advantages or disadvantages. Attempts by Australian governments to create an artificial advantage for a community or a particular area are unlikely to succeed — the history of such programs shows that their effectiveness is limited and typically result in net losses to the Australian community as a whole (for example, Daley et al. 2019; PC 2017). And when implemented through the tax system, they risk violating the Australian Constitution (chapter 1).

Box 5.4 **Government strategies for economic development**

The Commission's 2017 *Transitioning Regional Economies* study report sets out strategies for successful economic transition and development in Australia. Among the key findings were that:

- governments can best facilitate economic development by ensuring that policies and regulations do not unnecessarily impede change
- regional development policy is primarily the responsibility of State, Territory and local governments
 - the Australian Government's role in regional development policy should instead be minor, and closely aligned with State and Territory governments.

The Commission noted that governments cannot artificially create an advantage for a regional community that it does not intrinsically possess. Government efforts are better directed toward improving the planning and delivery of infrastructure and public services in particular areas, taking local circumstances into account.

The Commission did identify cases for specific intervention on market failure grounds, but only where such interventions would be expected to produce net benefits for the wider community. For example, City and Regional Deals are designed to overcome coordination failures and align priorities across levels of governments — although the Commission noted that such programs often lacked transparent and independent evaluation of their impact.

State, Territory and local governments remain primarily responsible for addressing those market failures, with the Australian Government providing complementary assistance (if any).

Source: PC (2017b).

It follows that the 'potential' for economic development in a particular area is not an adequate basis for Australian Government intervention. There is usually a good reason why particular resources have not been developed — it is simply not economic to do so.⁴² Remote areas are generally costly places to do business, and businesses would be attracted or remain there, and invest in projects, only if they expect the returns on offer to exceed the costs and risks. There is no general need for governments to subsidise this process in the absence of a specific market failure.

Does town sustainability justify specific policy intervention?

Similar considerations apply to arguments concerning town decline. In *Transitioning Regional Economies*, the Commission stated:

There are now fewer people living in some smaller regional towns — a familiar story in the history of Australia's regions. Over the past century, many previously thriving regional towns have shrunk. When people and businesses leave a regional community to take up opportunities elsewhere, this often generates greater value and so increases the overall wellbeing of the

⁴² Or, as in some cases, there may be a specific market failure (such as thin capital markets) that could justify a targeted measure. Governments often have policy measures in place to address those imperfections — and if those measures do not meet their objectives, governments should look to improve them, rather than relying on less targeted measures.

Australian population. However, such changes can have adverse effects on the people left behind, who are likely to be older. Individuals who depart the region are often those who played key roles in the community, such as leading local sporting clubs and similar organisations. A shrinking of the population can harm a community's social and cultural life, and reduce local leadership expertise and skills. However, this is not a uniquely Australian phenomenon, with many OECD countries experiencing similar trends. (PC 2017, p. 20)

This is not to say that town decline is inevitable, but rather that places grow and decline on their own merits. It is a process that is very difficult for governments to spur or reverse. The Commission does not see town decline as a rationale for specific Australian government assistance except in (very) limited cases where extreme events are likely to result in high levels of permanent disadvantage for residents of a region (PC 2017).

The ZTO is a poor decentralisation tool

Concerns about population pressures in cities also do not provide justification for the ZTO or a similar measure.

In general, governments are best off addressing problems such as congestion at their source. For example, Infrastructure Victoria recommends that high demand for city infrastructure should be managed by *increasing* density in Melbourne around established infrastructure (Infrastructure Victoria 2016a). And its strategy to address congestion similarly focuses on road user pricing in cities, rather than encouraging decentralisation (Infrastructure Victoria 2016b).

Were governments of a mind to pursue decentralisation, the ZTO would be a poor tool for that purpose — as shown in chapter 4, the ZTO is unlikely to encourage people to relocate to remote areas. Many people decide where to live based on liveability (including access to services) and lifestyle, as well as financial concerns. These factors cannot be addressed by an income tax concession alone, even if it were made considerably larger.

Further, decentralisation from cities could be achieved more effectively by people relocating to regional areas rather than remote areas. Given their existing lifestyle expectations, most city dwellers would almost certainly prefer regional centres (such as Bendigo, Bathurst or Bundaberg) to remote places (for example, Broken Hill or Burketown), even if only to remain closer to the major cities. And if Governments chose to use 'place-based policies' to achieve decentralisation, it is likely that promoting growth in denser regional centres would be more effective than offering a broad tax concession across remote Australia.

Tax system equity and efficiency arguments

Other rationales put forward for the ZTO relate to the way the income tax system treats remote residents. Addressing an inequity or inefficiency imposed by the tax system can be a legitimate reason to provide a tax concession.

What are the suggested justifications?

One argument is that the amount of tax paid by remote residents is not commensurate with the levels of public services available in remote areas. PVW Partners (sub. 59, p. 2) submitted that:

... equality should be key in the policy objectives. Currently taxpayers in Northern Australia pay the same rate of tax but do not receive or have access to the same level of infrastructure and services as our capital city counterparts.

Similarly, Ernie and Kylie Camp (sub. 64, p. 5) said:

We accept that due to our location, costs for goods, services will be higher and accessibility to same will be lower. We also accept that there is not ready access to education and health services. We do not ask for equality of services but rather equity. To reduce the inequity we experience daily requires support from government.

This argument posits that the ZTO has a role to reduce the amount of tax paid to reflect the fact that a remote taxpayer receives fewer government services than a city resident.

A second argument is that income taxes for residents of remote areas should be adjusted for the higher costs of living, to ensure that the real level of tax paid by people in remote areas is the same as that paid by people in non-remote areas. Note that this is an argument for compensation against *extra real taxation*, rather than an argument for compensation for the *extra costs of living* in remote areas generally (which were discussed above).

This argument has both an equity and an efficiency dimension, as higher real taxes on workers can have labour market effects. Many employers offer higher remuneration to attract workers to remote areas, partly in recognition that they are high-cost (or uncongenial⁴³) areas; however, because those workers' higher *nominal* incomes are subject to additional tax, they may still receive a smaller *real* after-tax income than if they were living in a low-cost area on a lower nominal income. Katherine Trigg (sub. 17) and John Juniper (sub 48) each alluded to this problem, with Katherine Trigg submitting that:

Ironically, increased wages and salaries, intended to commensurate [sic] workers for the privations of working on an isolated mine site, attract higher tax rates. Apart from the ZTO there is no taxation measure to counter that convolution. (Katherine Trigg, sub. 17, p. 1)

In practice, the fact that workers in remote areas face tax on their wages premiums may cause employers to increase their gross remuneration in order to attract the necessary workers. However, at the margin, this would render some business opportunities in remote areas less commercially viable. In principle, if an income tax concession could be appropriately

⁴³ Technically, this argument does not rely on remote area remuneration premiums compensating workers for *high living costs* in remote areas. Other aspects of work in remote areas, including isolation, climate or other forms of dis-amenity, can also occasion such premiums — and those premiums will still attract higher taxes, with consequent labour market effects. (See Albouy (2009), Hamilton and Decker (1989).)

targeted, it could address this distortion; indeed, this was part of the rationale for the introduction of the isolated areas income tax concession in 1945.⁴⁴

Do these aspects of the tax system justify the ZTO?

While some of these arguments are not without theoretical merit, the Commission does not find that they provide a compelling justification for the ZTO (or a similar measure) in contemporary Australia, for several reasons.

First, while the Commission recognises that access to government services is poorer in much of remote Australia, it notes that it is also more expensive to provide those services on a per-person basis. Governments already direct significant additional expenditure to provide infrastructure and services, as well as targeted support measures, in those areas (chapter 3).

Second, if the higher cost of living in remote Australia were to be accepted as a justification for a tax concession on equity grounds, this logic would also apply to expensive urban areas like inner Sydney. Few (if any) other tax policies have ever been explicitly made available on the basis of different price levels, which, as the Commission has discussed in appendix B, are difficult to define with precision on a regional basis. Such a policy, especially if it were to be applied consistently, would introduce a sizeable degree of complexity to the taxation system.

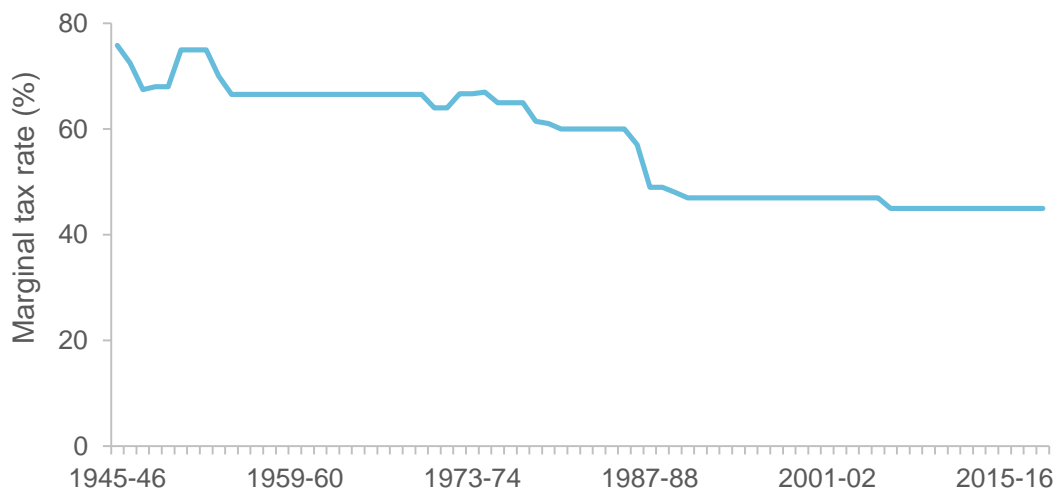
Third, as with the argument for compensation for the disadvantages of life in remote Australia (discussed above), labour markets generally compensate workers in remote areas for higher living costs, just as they compensate them for other disadvantages of life in remote Australia. If market wages and conditions are inadequate, workers will leave remote areas. This fall in labour supply should cause wages in the market to increase until they again compensate adequately for the disadvantages of life in remote places. These disadvantages include higher ‘real’ taxation in remote areas or any relative lack of access to government services. There is, therefore, not a strong case for a concession on tax equity grounds.

Fourth, identifying and then correcting any labour market distortion through a ZTO today would present a number of practical challenges that would likely outweigh any economic benefit. The Commission recognises that many employers may pay a ‘remoteness premium’ on their remuneration (just as businesses will receive a remoteness premium on their prices), but the data do not show a clear and consistent premium that could be targeted by a ‘lines on a map’ tax concession. A poorly targeted measure risks introducing further inefficiency by subsidising employment in areas that are not high-cost or uncongenial. Further, a concession provided on this basis would need to be larger for workers on higher incomes, because they face higher marginal tax rates.

⁴⁴ In introducing the isolated area deduction (precursor to the ZTO), then-Treasurer Ben Chifley MP (1945, p. 924) noted that many employers in more isolated areas paid additional wages (allowances) to encourage employees to relocate, and observed that ‘those allowances are taxable in full; consequently, the absorption by taxation of a substantial portion largely defeats the purpose for which they are paid’.

And finally, there is little to suggest any efficiency cost is large. In 1945, to help finance World War II, marginal tax rates were high (especially for those on very high incomes). While this may have provided some justification for income tax concessions at that time, the top marginal income tax rate is far lower now than it was in 1945 (figure 5.1). Recently legislated tax cuts will further reduce marginal tax rates on incomes between \$90 000 to \$200 000 a year from 37.5 to 30 per cent by 2024-25 (Australian Government 2019). This diminishes the case for an income tax concession on labour market efficiency grounds.

Figure 5.1 Highest marginal income tax rate^a
1945-46 to 2016-17



^a Tax rates prior to 1950 are derived from editions of the *Income Tax Act* (Cth) between 1945 and 1949.

Source: ATO Taxation Statistics 2016-17, snapshot table 1.

DRAFT FINDING 5.1

There is no compelling justification for a zone tax offset in contemporary Australia.

Higher living costs or other aspects of life in remote areas do not warrant compensation from other taxpayers. Australians face a range of advantages and disadvantages in where they live, and will typically locate in the area they value most highly.

Communities likewise grow or shrink based on their advantages and disadvantages. Attempts by governments to artificially create an advantage for a remote community, or attract people to live in high cost areas through tax concessions, typically result in net losses to the broader Australian community.

Repealing the ZTO

As it stands, the ZTO is ineffective and poorly targeted, and there is no compelling, contemporary justification for it to continue. The ZTO currently costs about \$153 million a year. This forgone revenue carries an opportunity cost, in that it could be spent elsewhere, or fund other taxes to be lowered. The Commission is recommending that the ZTO be abolished.

What would be the impacts of repeal?

Chapter 4 establishes that the ZTO is likely to have a minimal effect on decisions to move to or seek work within the zones. So, therefore, should its repeal. Although there is scope for asymmetric effects — repeal may nudge some people to leave the zones — this is likely to be a very small number of people, especially in the context of the high level of (internal) migration to and from remote areas already occurring (chapter 2).

The main impacts are likely to be ‘morning after’ changes for those who lose the concession, particularly where the ZTO is a larger share of income. As chapter 4 observed, the ZTO is modest for most recipients. For those recipients currently living in Zone B, the loss of the \$57 annual payment would likely be absorbed; for most others, the loss would be modest. And in those areas where the rebate is more significant, wages could adjust upwards, at least partially, in response to the change, limiting these direct impacts (albeit potentially reducing employment slightly). This would be most likely to occur where the ZTO is larger as a share of income and thus more salient in decision making.

For a small number of low-income earners largely residing in special areas (about 12 000 taxpayers), the ZTO represents between 3 and 5 per cent of their after-tax income. And in limited cases, a number of special area recipients may be concentrated in a small area, such as on isolated islands. Abolishing the ZTO may have local economic effects in these areas. Norfolk Island residents, for example, collectively claimed about \$1.2 million in ZTO in 2016-17. An estimate of the size of the Norfolk Island economy (gross territory product, prior to the re-imposition of income tax) put it at \$68 million in 2013-14 (CIE 2014). The value of the ZTO would then represent about 1.8 per cent of local economic activity.

Overseas forces tax offset and dependant rebates

Repealing the ZTO would affect the overseas forces tax offset (OFTO). The OFTO consists of two related offsets, both linked to the ZTO. The first is available to Australian Defence Force employees in specified overseas conflicts,⁴⁵ and the second to civilians (primarily members of the Australian Federal Police) serving with an armed force under the control of the United Nations.⁴⁶

⁴⁵ *Income Tax Assessment Act 1936* (Cth), s. 79B. First provided in 1947.

⁴⁶ *Income Tax Assessment Act 1936* (Cth), s. 23AB. First provided in 1964.

The OFTO is provided at the same rate as the ordinary Zone A rebate, and has been updated in line with changes to the ZTO. Previous inquiries (including the Cox Review) considered the OFTO alongside the ZTO. Although data for the OFTO and ZTO are combined, the Commission estimates that fewer than 1000 taxpayers claim the OFTO.⁴⁷ Most Defence employees posted overseas are exempt from income tax under s. 23AD of the *Income Tax Assessment Act 1936* (Cth).

The case for retaining the OFTO concessions is not strong. The Cox Review recommended the repeal of the OFTO as it is a ‘disguised form of expenditure on defence and would be more appropriately brought to account on the expenditure side of the Budget’ (Cox et al. 1981, p. 23). Similarly, the Henry Tax Review (2009b) viewed that those personnel would best be compensated by removing the offset and increasing their remuneration to maintain net incomes. In both cases, the Australian Government did not accept the recommendations.

The Commission does not consider the OFTO to have a valid contemporary rationale. Were the ZTO to be repealed, the OFTO should similarly be repealed. The loss of income for affected employees should be addressed through normal remuneration arrangements.

As discussed in chapter 4, the notional rebates used to calculate dependant loadings for ZTO recipients are not directly claimable by taxpayers, and are only applied in the calculation of dependant loading for the ZTO and the OFTO.⁴⁸ Those notional rebates should be repealed along with the tax offsets.

Repealing the ZTO would require technical changes to the eligibility criteria for both the RAA and FBT remote area concessions, each of which is dealt with separately in this report. Chapter 6 proposes a substantial amendment to the RAA boundaries that would remove any reference to the current ZTO zones. Similarly, chapter 8 suggests possible changes to the boundaries of the FBT remote area concessions that would remove references to the ZTO zones.

Repealing the ZTO would also put to bed the risk that the offset may be invalid under the Australian Constitution.

DRAFT RECOMMENDATION 5.1 ABOLISH ZONE AND OVERSEAS FORCES TAX OFFSETS

The Australian Government should abolish the zone tax offset and the overseas forces tax offset.

⁴⁷ There are about 664 ADF employees in eligible conflicts, compared with 1740 in conflicts that are eligible for an income tax exemption under s. 23AD (*Income Tax Assessment (1936 Act) Regulation 2015* (Cth)) (Department of Defence 2019b). Similarly, Australian Federal Police employees who were part of the UN peacekeeping force in Cyprus were eligible for the United Nations offset under s. 23AB. These personnel were withdrawn in June 2017 (AFP 2017).

⁴⁸ Division 961 of the *Income Tax Assessment Act 1997* (Cth).

5.2 Tax concessions for businesses in remote areas

The study's terms of reference direct the Commission to consider whether businesses in remote areas should be provided with similar support to the ZTO.

Place-based business tax concessions are often advocated on similar grounds to the ZTO. These policies generally aim to encourage businesses to relocate to particular areas to support regional development and employment. A number of contributions to this study supported such concessions for remote businesses (box 5.5).

By reducing taxes, these policies reduce the cost of doing business in a particular area. In principle, this may improve the profitability of existing businesses, encourage new businesses to start up, or provide an incentive for established firms to relocate to those areas.

Examples of place-based business tax concessions

Providing concessional tax arrangements for businesses in specified areas is not a new idea. John McLaren (sub. 14 and attachment) pointed to prior examples in Australia where governments have tried to encourage economic development in particular places through tax concessions. For example, the Darwin Trade Development Zone operated between 1985 and 2003 as an attempt to attract trade-focused industry to Darwin. It had limited success in doing so, and was repealed because it was considered to undermine competitive neutrality and risked putting Australia in violation of its trade agreements (John McLaren, sub. 14, attachment 1).

Box 5.5 Study participant views on income tax concessions for businesses in remote areas

A number of businesses (and other participants) operating in remote areas argued in favour of concessional tax arrangements for businesses.

Galvins Plumbing Supplies (sub. 30) and MITEZ (sub. 67) each suggested that a payroll tax concession could address the high cost of attracting and retaining employees in remote areas, while PVW Partners (sub. 59) suggested that forgiving Higher Education Loan Program debt in remote areas could help businesses attract skilled employees. Similarly, Ernie and Kylie Camp (sub. 64, p. 6) noted the unique circumstances of businesses in some remote areas, arguing that:

Businesses in remote areas should also be eligible for Zonal Tax concessions due to the increased cost of trading, providing incentives to attract and retain staff and the fact that for many months of the year, during the Wet Season, they are unable to trade at all and the window of opportunity for trade may be limited to only six – nine months of the year.

Murweh Shire Council (sub. 27) in south-west Queensland suggested that setting up 'Economic Enterprise Zones' in the Shire would encourage both business relocation and new business start-ups. They proposed '75% tax concessions in the first five years to new businesses to the zone [and] 25% tax concessions to existing businesses to promote retention' (p. 2). The Chamber of Minerals and Energy (WA) (sub 95, p. 13) advocated for 'sustainable policy and taxation settings that encourage regional economic and community development', such as special economic zones, while the Shire of Flinders (sub. 91) also supported special economic zones.

The Indigenous Reference Group to the Ministerial Forum on Northern Development (sub. 87) argued that business concessions were necessary because of high capital and operating costs in remote Australia, and pointed to similar concessions for Indigenous businesses in Canada.

Today, some State governments offer payroll tax concessions for businesses in regional areas. This is generally premised on encouraging employment in areas outside of the respective State capital and its surrounds.

- Businesses operating in non-metropolitan Victoria pay half as much payroll tax (currently 2.425 per cent) as businesses operating in Melbourne (4.85 per cent) (State Revenue Office Victoria nd).
- The Tasmanian Government offers a three-year exemption from payroll tax for interstate businesses that relocate their operations to regional Tasmania (Tasmanian Government 2018; sub. 24).
- In the 2019-20 Budget, the Queensland Government announced that the payroll tax for businesses in regional Queensland would be reduced by 1 percentage point (for example, from 4.75 per cent to 3.75 per cent for medium sized businesses) (Queensland Government 2019).

Overseas, many developing countries have declared special economic zones (SEZs) in certain regions. These are usually export zones or manufacturing hubs where businesses can access concessional tax rates or less burdensome regulatory arrangements.

Are these policies effective?

Successful place-based taxation policies are uncommon. Although limited evidence suggests that *some* SEZs can generate net economic benefits (Farole and Akinici 2011), this evidence is largely from developing countries, and for large interventions applied over very small areas (such as manufacturing hubs of less than 100 hectares). In these circumstances, encouraging economic activity to congregate can help overcome a ‘first-mover disadvantage’.

But in nearly all cases, place-based policies fall well short of their ambitions, creating direct and indirect costs to the wider economy. They increase the complexity of the tax system and incentivise businesses to shift in order to access concessions without boosting overall economic activity. Indeed, businesses often utilise these tax concessions without generating additional employment (Farole and Akinici 2011). And, as highlighted by Agribusiness Australia (sub. 46, p. 8):

... any further tiering of the business tax system is undesirable as it is likely to result in additional complexity and it also may encourage entities to restructure their affairs in a manner to seek advantages to which they would not otherwise be entitled.

Such policies typically reduce overall economic welfare

Providing place-based tax concessions to businesses in remote Australia would almost certainly create net economic costs and reduce wellbeing for Australia as a whole. The risks are well-summarised by the Daley et al. (2019, p. 53), who observed that:

... governments are often tempted by regional development schemes that involve industry or individual incentives.

But such schemes have two fundamental drawbacks. One is that they encourage businesses to locate in places that they wouldn’t otherwise choose on commercial grounds or individuals to move to places that they wouldn’t otherwise choose as best for their work, family and community options. The second is that such programs have a poor record of influencing people to move.

Businesses generally locate themselves where they can be more profitable, and those that establish themselves in cities do so for good reason. Extending the ZTO to businesses in remote areas would risk artificially shifting resources from cities to remote areas, where the costs of doing business are often higher. Indeed, the Australian Government’s White Paper on Developing Northern Australia (2015, p. 60) did not recommend creating a SEZ across the north, primarily because of the risk of ‘misallocation or distorted investment decisions’ stemming from preferential taxation or regulatory arrangements.

That said, the policy may not even be successful at relocating business activity. Past examples show limited success in doing so (Daley and Lancy 2011, pp. 23–41). And those few businesses that do relocate in pursuit of a tax concession often become dependent on that concession; the measure does not create self-sustaining economic activity, and masks the incentives that businesses face to minimise costs. Much like income tax concessions,

company tax concessions lack transparency, impose costs on governments, while adding complexity to the tax system (box 5.2).

Moreover, the legality of such arrangements, where provided by the Australian Government, is doubtful. Not only do place-based tax concessions risk falling foul of the Australian Constitution, but the previous Darwin Trade Development Zone was revoked in response to the risk that it was in violation of Australia's trade agreements (John McLaren, sub. 14, attachment 1).

Taken together, there is no credible case for the Government to provide company tax offsets specifically to businesses in remote areas. Consistent with its previous work,⁴⁹ the Commission views that there are more effective (and less distorting) ways for governments to support businesses in remote areas, if and where appropriate, without introducing (further) inefficiency, inequity and complexity into the tax system.

In general, governments should focus on removing unnecessary impediments to business development regardless of location. If there are specific constraints on business development — for example, access to public infrastructure — these should be directly addressed by targeted government measures, rather than a general tax concession.

DRAFT FINDING 5.2

There is no case for the Government to provide company tax offsets specifically to businesses in remote areas. Governments should focus on creating successful business environments regardless of their location.

⁴⁹ For example, *Transitioning Regional Economies* (PC 2017).

6 The remote area allowance

Key points

- Introduced in 1984, the objective of the remote area allowance (RAA) is to help income support recipients meet some of the higher costs associated with living in remote areas.
- To qualify for the RAA, a person must be receiving an eligible income support payment and live in an eligible area. These include special areas and ordinary Zone A (but not ordinary Zone B), as defined in taxation legislation for the purpose of the zone tax offset (ZTO).
- Unlike the ZTO, the RAA has only one level of payment, although it varies depending on family circumstance. Current fortnightly payment rates are: \$18.20 for an individual; \$15.60 (each) for a couple; and \$7.30 for each dependent child. The RAA is not indexed, nor is it taxable.
- In 2017-18, the Australian Government spent about \$44 million on the RAA and 113 000 people received at least one fortnightly RAA payment at some point during the year.
- Of the estimated 76 000 current recipients of the RAA, the majority (over 41 000) are located in the Northern Territory. This implies that 21 per cent of the Northern Territory population (over 15 years of age) currently receive the RAA.
- Other notable characteristics of RAA recipients are that:
 - most are located in ABS *very remote* and *remote* regions of Australia
 - half live in areas of the greatest socio-economic disadvantage
 - over 60 per cent are Indigenous Australians
 - the large majority are in receipt of either the age pension, the disability support pension, Newstart allowance or parenting payment
 - almost 60 per cent have been in receipt of an income support payment for over five years.
- The RAA has a legitimate role in addressing cost of living differences in remote areas, given that most recipients are from areas with the greatest socio-economic disadvantage, and (unlike most ZTO recipients) face barriers to mobility and do not benefit from remote area wage premiums.
- RAA boundaries are outdated and should be aligned with ABS *remote* and *very remote* areas.
 - This would increase the (yearly) number of RAA recipients by 43 000, although current recipients in Darwin (which is classified as *outer regional*) would no longer be eligible for the RAA.
 - If current rates of payment were maintained, this would increase the cost of the RAA by \$17 million a year.
- RAA payment rates have not increased in 20 years, and have declined in real value. The Australian Government should revise the payment rates following the completion of this study.
- The Department of Social Services should review the RAA periodically. These reviews should be made public and focus on payment rates, reporting of data, and any issues associated with administering the RAA.

This study is the first broad-based review of the remote area allowance (RAA) since its introduction in 1984 as a companion payment to the zone tax offset (ZTO). The RAA is a supplementary payment for income support recipients (such as age and disability support pensioners, and recipients of Newstart allowance and parenting payment) living in eligible remote taxation zones. Its objective is to help income support recipients meet some of the higher costs associated with living in remote areas.

In this chapter, the Commission provides an overview of the RAA, covering its policy objective, eligibility requirements and payment rates (section 6.1) before presenting a statistical profile of RAA recipients (section 6.2). It then examines the impacts of RAA (section 6.3) and the contemporary role and objective of the RAA (section 6.4). Finally, the Commission assesses current concerns about RAA boundaries, payment rates and transparency, and proposes a way forward (section 6.5).

6.1 What is the RAA?

One issue raised in the 1981 Cox Review into the ZTO was that compensation for remoteness was available only to taxpayers and not to people whose income was insufficient to take advantage of the tax rebate.

The zone allowance is not a good form of assistance for all people living in isolated areas. Individuals whose income is insufficient for whatever reasons are unable to take advantage of the tax rebate. Persons whose main source of income is a social security benefit are excluded from any benefit. The visits to remote areas by the Inquiry revealed serious problems for such people, particularly pensioners, because their income is often insufficient to meet the costs of living in such localities and/or making their residency more pleasant. (Cox et al. 1981, p. 29)

In response, in 1984 (following a 1983 amendment to the *Social Security Act 1947* (Cth)), the RAA was introduced for income support recipients living in eligible zones. This meant that, together, the RAA and ZTO would provide assistance to the majority of permanent residents in remote areas (NIEIR 2011, p. 3).

The stated objective of the RAA is specifically:

... to help meet additional costs associated with residence in remote areas. It recognises that many income support recipients who do not pay tax, or pay very little tax, do not receive the full benefit of tax zone benefits. Remote Area Allowance makes a contribution towards some of the higher costs associated with living in particularly remote areas. (DSS 2015)

Before deciding to introduce the RAA, the then Department of Social Security investigated cost of living differences between areas of Australia and how these differences related to ZTO zones (Beattie and McLoughlin 1983). Among other things, the study found a significant correlation between the ZTO zones and ABS measures of food prices across Zone A, Zone B and the remainder of Australia. However, data were not available for the special areas (box 6.1).

Box 6.1 **1983 study on cost of living in remote areas**

The Department of Social Security study (Beattie and McLoughlin 1983) on food prices in remote areas was based on an experimental ABS index of relative food prices in cities and towns throughout Australia. The study found that:

- 1981 food prices in Zone A were consistently clustered within a range of 13 to 24 per cent above those in cities (Sydney, Melbourne, Brisbane, Perth, Adelaide, and Hobart)
- food prices in Zone B were between 4 and 9 per cent higher than those in cities.

ABS price comparisons were available only for food prices. However, the study also considered whether shares of expenditure on different items could provide evidence of differences in costs between remote and non-remote regions.

Using 1975-76 ABS household expenditure data, it found that 72 per cent of spending by all pensioner-headed households was on food, alcohol and tobacco, household equipment, transport and communication, recreation and education and miscellaneous goods and services. The equivalent share was 73 per cent in all Australian households, but 79 per cent in Northern Territory urban area households. The study acknowledged difficulties in equating these expenditure differences to comparative prices, but thought that prices related to a large proportion of pensioner household spending would be likely to vary between remote regions and cities in a similar manner to food prices (which, as noted above, were generally higher in remote regions).

The study also reported that the cost of rental housing varied significantly between regions. It noted that rental assistance, a supplementary payment, has the 'inbuilt potential' to vary to reflect differences in rental prices between regions (Beattie and McLoughlin 1983, p. 46). This suggests that at the time the RAA was introduced, it was expected that any cost of living differentials for rental prices would mostly be compensated for through rental assistance rather than the RAA.

The RAA is a supplementary income support payment

The Australian Government provides income support to low-income individuals and families to assist with the costs of living. The major payment groups include retirees, students, carers, people with disabilities, people who are unemployed, and families. Income support payments include pensions (such as the age, veterans and disability support pensions), allowances (such as Newstart allowance, carer payment and Austudy), and family payments (such as parenting payment).

Supplementary payments are provided in addition to basic pensions and allowances (depending on the recipient's circumstances) to help cover expenses such as rent, pharmaceuticals, utilities, and education and training (DSS 2019). The RAA is administered as a supplementary income support payment.

Who is eligible for the RAA?

To qualify for the RAA, a person must be receiving an eligible income support payment, be physically present in a remote area and have their usual place of residence in a remote area (DSS 2019).

Eligible income support payments

The RAA is administered by the Department of Human Services (DHS) under the *Social Security Act 1991* (Cth) and by the Department of Veterans Affairs (DVA) under the *Veterans' Entitlements Act 1986* (Cth). At present, there are 19 income support payments associated with the RAA.⁵⁰ Eligibility for these payments generally depends on age (as for the age pension, disability support pension and youth allowance), on means (assessed through income and asset tests), and on meeting residency requirements.

Recipients assessed as having the capacity to work (including recipients of Newstart allowance, youth allowance as a job seeker, parenting payment after the youngest child turns six years old and some types of special benefit) are also required to actively seek employment and may be required to attend training or work experience to improve job prospects (DHS 2019b).⁵¹

A number of changes to Australia's welfare system are being implemented following the introduction of the *Social Services Legislation Amendment (Welfare Reform) Act 2018* (Cth).⁵² Existing eligibility criteria for the RAA and other supplementary payments will remain unchanged.

⁵⁰ Income support payments associated with the RAA include the age pension, disability support pension, parenting payment, carer payment, Abstudy, Austudy, special benefit, farm household allowance, Newstart allowance, youth allowance, bereavement allowance, sickness allowance, wife pension, widow B pension, partner allowance, and widow allowance (each administered by the Department of Human Services) and the service pension, income support supplement and veteran payment (each administered by the Department of Veterans' Affairs) (DHS 2019a).

⁵¹ Job seekers who live in remote community development program (CDP) areas and have activity requirements (associated with these income support payments) are required to complete up to 20 hours per week of work-like activities deemed to benefit their community. There are 60 remote CDP regions characterised by weak labour markets (PM&C 2019b).

⁵² From 20 March 2020, working age payments — Newstart allowance, sickness allowance, wife pension, bereavement allowance and widow B pension — will be consolidated into a single JobSeeker payment. Most recipients of these payments (depending on circumstances) will transition to Jobseeker payment, age pension or carer payment. Widow allowance and partner allowance will cease from 1 January 2022, and all remaining recipients will transition to the age pension (DSS 2018c).

Place of residence

Residency requirements for the RAA are based on ‘usual place of residence’ in a remote area, which is defined as the place where a person normally lives, sleeps and eats (DSS 2019).

Areas eligible for the RAA include taxation Zone A (both ordinary and special areas of Zone A) and Zone B special areas (but not ordinary Zone B areas).⁵³ RAA areas cover much of the northern half of mainland Australia and include islands such as Christmas Island, the Cocos (Keeling) Islands, Lord Howe Island, Norfolk Island, and the Torres Strait Islands⁵⁴ (figure 6.1). If a person lives in an area that is next to, or close to, a RAA area, they can apply to the Commissioner of Taxation, who has the discretion to deem the area to be within the RAA specified area (DSS 2019).

The Department of Social Services (DSS) explained that the DHS automatically determines eligibility for the RAA based on the address information of income support recipients.

People do not need to lodge claims for RAA. The Department of Human Services (DHS)’s system automatically checks eligibility when a person’s address details are processed as a result of a claim for an income support payment or when an income support recipient notifies of a change in address. Home address details recorded in DHS’s system are used to determine if a person is physically present in a remote area and eligible for RAA. (DSS, pers. comm., 6 June 2019)

Manual determinations (in consultation with the ATO) only occur for boundary cases that have not previously been captured in the DHS system. RAA assessments are a well-established process and manual determinations are minimal (DSS pers. comm., 6 June 2019).

⁵³ For the purposes of the RAA, the definition of a remote area in the *Social Security Act 1991* (Cth) and the *Veterans’ Entitlements Act 1986* (Cth) is based on the *Income Tax Assessment Act 1936* (Cth), Schedule 2. Those parts of Australia referred to in Part II of that Schedule to that Act are further than 250 kilometres by the shortest practicable surface route from the nearest urban centre with a census population of 2 500 or more, based on the results of the census undertaken by the Australian Bureau of Statistics in 1981.

⁵⁴ Zone A areas that are not RAA eligible areas include the Australian Antarctic Territory, Macquarie Island, McDonalds Islands and the Territory of Heard Island (DSS 2019). These are generally uninhabited islands.

Figure 6.1 **The areas eligible for the RAA^a**



^a Special area boundaries are based on 'practicable surface routes'; the map is approximate only. Special Zone A (for RAA purposes) also includes Christmas Island, Cocos (Keeling) Islands, Lord Howe Island, Norfolk Island and the Torres Strait Islands.

Source: *Income Tax Assessment Act 1936* (Cth), Schedule 2.

What are the current payment rates?

The RAA is paid each fortnight on top of an eligible income support payment. It is paid at the same rate across all eligible areas. It is also paid at a flat rate across all income groups. For example, a full-rate income support pensioner receives the same RAA as a part-rate pensioner.

Current fortnightly rates of payment are:

- \$18.20 for an individual or
- \$15.60 (each) for a couple
- \$7.30 for each dependent child (DSS 2019).

For a single individual, this translates to a payment of about \$470 a year. For a couple with two children, it translates to a payment of \$1190 a year. Unlike some supplementary income payments, such as commonwealth rent assistance, the RAA is not taxable. RAA recipients may also be eligible for the ZTO, but receipt of the RAA reduces the ZTO claimable on a dollar-for-dollar basis (chapter 4).

How much does the Australian government spend on the RAA?

In 2017-18, the Australian Government spent about \$44 million on the RAA. About 113 000 people received at least one fortnightly payment of the RAA during that year (DHS administrative data (unpublished) and DVA administrative data (unpublished)).

Recipients in the Northern Territory (50 per cent), Western Australia (23 per cent) and Queensland (20 per cent) accounted for the majority of expenditure. These figures are consistent with differences in recipient numbers across states and territories, discussed in the next section.

The average RAA payment in 2017-18 was \$387 per recipient. However, this amount varied significantly depending on the income support payment the RAA was supplementing. Those in receipt of parenting payment received an average of \$623 in RAA in 2017-18, compared with an average of \$405 for age pension recipients and \$321 for recipients of Newstart allowance (DHS administrative data (unpublished)). This largely reflects differences in the duration of income support — for example, the age pension is a longer-term income support payment for recipients than Newstart allowance — and whether the recipient receives the RAA for dependent children, as is the case for parenting payment recipients.

6.2 A profile of RAA recipients

Determining who currently receives the RAA is an important first step in understanding how and how well the assistance measure is operating. To understand more about the RAA, the Commission has analysed unpublished point-in-time DHS administrative data recorded on 28 September 2018 (excepting farm household allowance data, which was recorded on 29 June 2018) and DVA administrative data recorded on 30 September 2018. This point-in-time data recorded around 76 000 people who were in receipt of RAA.

Most RAA recipients live in the Northern Territory

Of the 76 000 RAA recipients, the majority — over 41 000 (or 55 per cent) — are located in the Northern Territory (figure 6.2, panel A). This implies that about one fifth of the Northern Territory RAA-age population (taken to be those over the age of 15 years⁵⁵) are in receipt of the RAA.

A relatively large number of RAA recipients are located in Western Australia (about 17 000, or 23 per cent of all RAA recipients) and Queensland (about 13 000, or 18 per cent of all RAA recipients) (figure 6.2, panel A). That said, less than 1 per cent of the population (over 15 years of age) in these states is in receipt of the allowance.

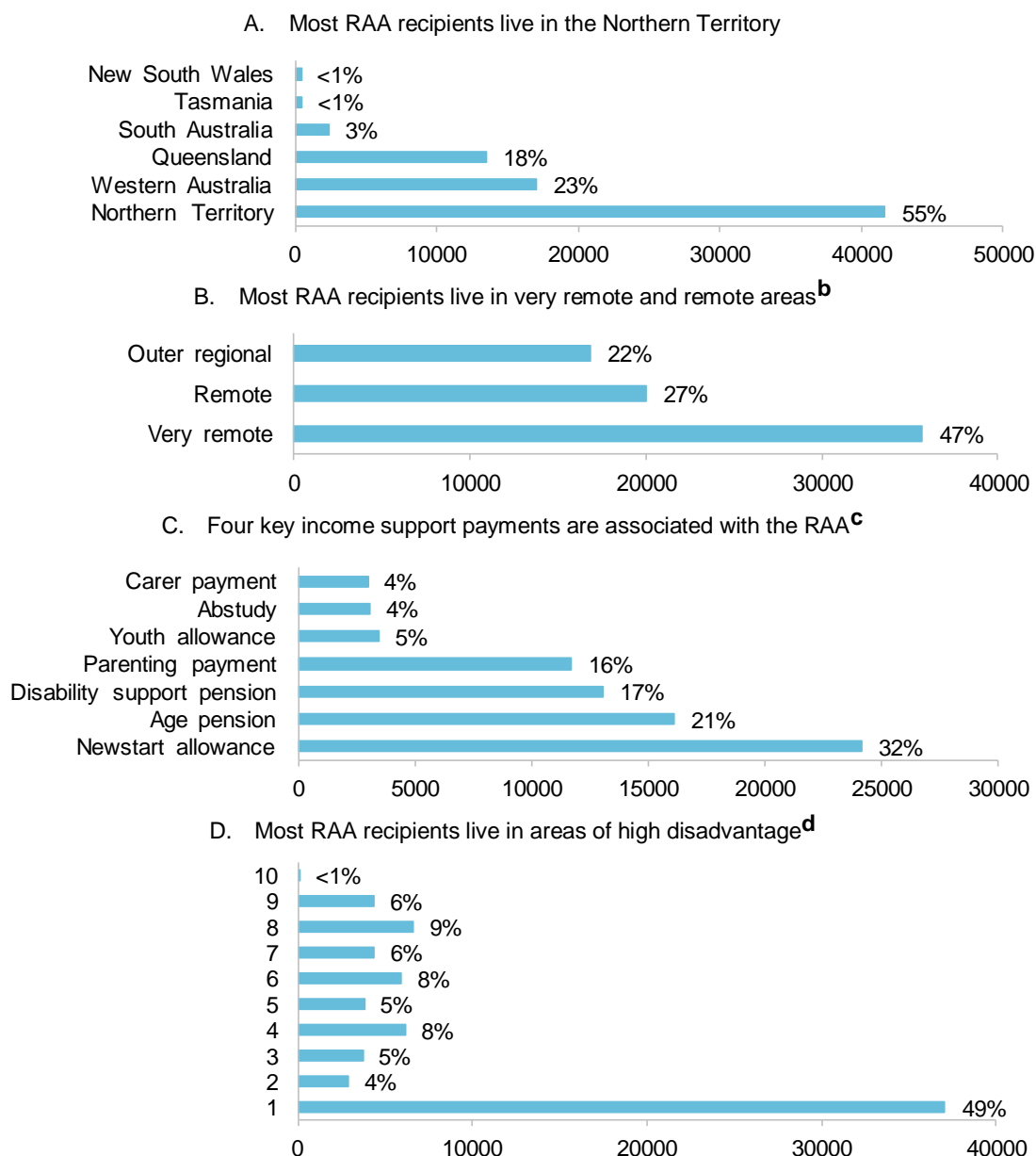
The ABS classifies regions into five categories of remoteness — *very remote*, *remote*, *outer regional*, *inner regional* and *major cities* (ABS 2018c) (chapter 1). RAA recipients reside predominantly in ABS *very remote* and *remote* areas (figure 6.2, panel B). The only eligible RAA area that is not classified as *very remote* or *remote* by the ABS is Darwin, which is classified as *outer regional*. Although Darwin covers only a small area, the number of RAA recipients living there is significant.

RAA data by postcode provide information on who receives the RAA at a more disaggregated geographic level. Table 6.1 lists the 10 postcode areas where the largest number of RAA recipients reside. Together, these postcodes account for over half of all RAA recipients. More than 40 per cent of the population in postcode area 0872 receive RAA payments. However, the postcode with the largest share of the population in receipt of the RAA is postcode 6765 (not listed on the table). In this very remote northern area of Western Australia (which includes Fitzroy Crossing and Mount Hardman), some 1251 people — over 70 per cent of the population (1757 people in the 2016 Census) — receive RAA payments.

Postcode analysis has limitations, as some individual postcodes encompass large areas that cross over state and territory borders and include city, regional and remote areas. Consequently, a single postcode may include both eligible and ineligible suburbs. However, these limitations do not invalidate the broad story arising from the analysis.

⁵⁵ The RAA does not have a minimum qualifying age. The minimum age of a recipient depends on the minimum age rules for the income support payment the person is receiving. The Commission has chosen population over the age of 15 as a proxy for RAA-age population, as the large majority of RAA recipients are over 15 years of age (although Abstudy is available to eligible people under the age of 16). Data are not collected on individual ages under 16 years (DSS pers. comm., 6 June 2019). Figures for population over the age of 15 are sourced from ABS Australian Demographic Statistics, cat. 3101.0, September 2018.

Figure 6.2 A profile of RAA recipients^a
September 2018 (point-in-time recipient numbers)



^a Does not include recipients with unknown postcodes, or areas with less than 5 recipients of RAA. ^b Based on ABS Australian Statistical Geography Standard Remoteness Structure by postal area. ^c The remaining income support payments associated with the RAA — Austudy, bereavement allowance, farm household allowance, income support supplement, partner allowance, service pension, sickness allowance, special benefit, veteran payment, widow allowance, widow pension and wife pension — each account for less than one per cent of total RAA recipients. ^d Based on the ABS Index of Relative Socio-economic Disadvantage by postal area.

Sources: ABS Australian Statistical Geography Standard: Volume 5 — Remoteness Structure, cat. 1270.0.55.005, July 2016; ABS Census of Population and Housing, 2016, cat. 2033.0.55.001, 2016; DHS administrative data (unpublished) recorded on 28 September 2018 (with the exception of farm household allowance which was recorded on 29 June 2018); DVA administrative data (unpublished) recorded on 30 September 2018.

Table 6.1 Postcodes with the largest numbers of RAA recipients^a

<i>Postcode</i>	<i>Included areas</i>	<i>Remoteness class^b</i>	<i>Recipients No.</i>	<i>% of RAA recipients</i>	<i>% of pop.^c</i>	<i>IRSD decile^d</i>
0822 NT	88 areas spanning Tiwi Islands, Charles Darwin, Hotham, Point Stuart, West Arnhem, Maningrida, East Arnhem, Umbarkumba, Numbulwar, Burrundie, Wadeye, Peppimenarti, Daly River and Bynoe	Outer regional, remote and very remote	8 095	10.7	31.7	1
0872 NT SA WA	69 areas spanning Sandoval, Alice Springs, De Rose Hill, Amata, APY Lands, Ngaanyatjarra-Giles, Gibson Desert South and Gibson Desert North	Remote and very remote	6 386	8.4	41.3	1
0810 NT	Alawa, Brinkin, Casuarina, Coconut Grove, Jingili, Lyons, Millner, Moil, Muirhead, Nakara, Tiwi, Wagaman and Wanguri	Outer regional	4 187	5.5	12.6	8
0870 NT	Alice Springs, Araluen, Braitling, Ciccone, Desert Springs, East Side, Gillen, Sadadeen, Stuart, The Gap and White Gums	Remote	3 753	5.0	19.1	7
0830 NT	Archer, Driver, Durack, Farrar, Gray, Marlow Lagoon, Moulden, Palmerston City, Shoal Bay, Woodroffe and Yarrawonga	Outer regional	2 999	4.0	16.5	5
4825 QLD NT	35 areas spanning Lawn Hill, Mount Isa, Dajarra, Buckingham, Georgina, Carrandott, Barkly, Alpururulam and Ranken	Remote	2 973	3.9	15.4	4
812 NT	Anula, Buffalo Creek, Holmes, Karama, Leanyer, Malak Marrara and Wulgi	Outer regional	2 753	3.6	14.6	6
852 NT	45 areas spanning Timber Creek, Mataranka, Jilkminggan, Bulman Weemol, Limmen, Pellew, Islands, Warumungu, Lajamanu and Yarralin	Remote and very remote	2 663	3.5	32.1	1
6725 WA	Bilingurr, Broome, Dampier Peninsula, Djugun, Eighty Mile Beach, Gingerah, Lagrange, Minyirr, Roebuck and Waterbank	Remote and very remote	2 569	3.4	23.8	2
4875 QLD	Masig, Moa Island, Mulgrave Island, Murray Island, Saibai Island, Stephens Island, Talbot Island, Thursday Island, Warraber Island, Yam Island and Yorke Island	Very remote	2 198	2.9	27.1	1

^a The RAA is paid by suburb rather than postcode; in some of these postcode areas, there are suburbs that are not eligible for the RAA. Data do not include postcodes for post boxes. ^b Based on ABS Australian Statistical Geography Standard Remoteness Structure by postal area. ^c Population by postal area is based on ABS 2016 Census data. Population data by postal area include all ages and therefore cannot be compared with the state and territory estimates in the text based on population aged 15 and over. ^d Based on the Index of Relative Socio-economic Disadvantage (IRSD).

Sources: ABS Australian Statistical Geography Standard: Volume 5 — Remoteness Structure, cat. 1270.0.55.005, July 2016; ABS Census of Population and Housing, 2016, cat. 2033.0.55.001, 2016; DHS administrative data (unpublished) recorded on 28 September 2018 (with the exception of farm household allowance which was recorded on 29 June 2018); DVA administrative data (unpublished) recorded on 30 September 2018.

RAA recipients are mainly within areas of high disadvantage

Table 6.1 examines socio-economic disadvantage in RAA areas using the ABS Index of Relative Socio-economic Disadvantage (IRSD). The IRSD summarises a range of information about the economic and social conditions of people and households within an area. A low decile indicates relatively greater disadvantage.⁵⁶ For example, an area could have a low score if there are many households with low income, many people with no qualifications, or many people in low-skill occupations (ABS 2018a). An overwhelming number of RAA recipients fall within IRSD areas of the highest relative disadvantage (decile 1), with other recipients scattered across regions in IRSD deciles 2 to 9 (figure 6.2, panel D and table 6.1).

Other characteristics of RAA recipients are:

- 86 per cent receive either age pension, disability support pension, Newstart allowance, or parenting payment (figure 6.2, panel C)
- 64 per cent are Indigenous Australians
- 57 per cent have been in receipt of an income support payment for over five years
- 93 per cent had no employment earnings in the fortnight prior to being surveyed
- 23 per cent are aged 65 years and over, and 19 per cent are in the 25-34 year age bracket (DHS administrative data (unpublished) and DVA administrative data (unpublished)).

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Notable characteristics of the profile of remote area allowance recipients include that:

- most reside in *very remote* and *remote* areas of Australia (as defined by the Australian Bureau of Statistics)
- the majority are located in the Northern Territory, with one-in-five Northern Territorians over the age of 15 years in receipt of the payment
- half are located within areas of the highest socio-economic disadvantage
- almost 65 per cent of recipients are Indigenous Australians
- just over half have been in receipt of an income support payment for over five years.

⁵⁶ The decile measure of disadvantage is calculated by ordering all areas from lowest to highest score of disadvantage. The lowest 10 per cent of areas are given a decile number of 1, the next lowest 10 per cent of areas are given a decile number of 2 and so on until there are 10 deciles of equal size (ABS 2018b, p. 27).

6.3 The economic impacts of the RAA

Apart from noting that they are likely to be small in aggregate, gauging the effects of the RAA is not straightforward. The small value of the RAA makes it difficult to disentangle its effects from those of other policies targeted at regional and remote areas (chapter 3). Further, very few submissions made reference to the RAA, and many study participants in meetings and forums commented that they had no knowledge of it. For these reasons, this section canvasses the likely impacts of the RAA mainly in qualitative terms.

Benefits of the RAA

The RAA directly increases the incomes of its recipients, enabling them to have a higher standard of living than they otherwise could, and can have flow-on benefits for remote communities.

However, study participants who commented on the RAA considered the current RAA payment rates too low to make a significant difference to the income of households in remote areas. For example, the Indigenous Reference Group to the Ministerial Forum on Northern Development said:

Like the ZTO it is highly unlikely that an amount of \$18.20 per fortnight for a single person, \$31.20 per fortnight per couple and an additional \$7.30 per fortnight per dependent child, has a material impact on the budget of socio-economically disadvantaged persons living in remote Northern Australia. (sub. 87, p. 17)

Low-income households have high marginal propensities to consume; that is, extra income is more likely to be spent rather than saved. An *Analysis of the impact of raising benefit rates* by Deloitte Access Economics (2018a) assessed the impact of increasing a range of allowance payments by \$75 a week and found:

That [the] money goes as extra income to a group that, on average, is the poorest of the poor in Australia. Other things equal, most of it is therefore spent. So it's no surprise that the bulk of the dollars ... show up as extra spending by consumers. (p. ii)

It would likewise be expected that a large proportion of RAA payments are spent by their recipients rather than saved. The local multiplier effect will vary by remote area, being influenced by the total amount of RAA going to the area and by the proportion of the RAA spent locally rather than outside the area (including via on-line transactions).

In this context, the RAA could have a significant cumulative impact on remote communities with a high concentration of recipients. For example, postcode area 0822 (table 6.1) contains over 8000 RAA recipients, which (assuming the national average annual value of \$387) implies that RAA payments for this area amount to over \$3 million each year.

Costs of the RAA

Like all outlays, the RAA comes at a direct cost to government (and taxpayers) and so it may have the effect of reducing economic activity elsewhere in the economy.

Total expenditure on the RAA was estimated at \$44 million for 2017-18, with minimal administration costs. The RAA is an automatic payment that is simple to administer. DSS said that:

DHS does not record administration costs for RAA as there is an established automated process and minimal staff effort is required. (DSS pers. comm., 6 June 2019)

In comparison, outlays on other supplementary payments for income support recipients (in 2017-18) ranged from \$4 billion for commonwealth rent assistance to \$98 million for the energy supplement (for holders of the commonwealth seniors health card), \$22 million for utilities allowance and \$7 million for the essential medical equipment payment (DSS 2018a, pp. 44, 85).

One potential ‘cost’ of all welfare measures is that they can create perverse incentives: for example, by effectively paying people not to work. The RAA might also encourage some people to move to or remain in high-cost areas. Burke Shire Council commented on this risk:

While we agree that those in our community on benefits face equal challenges of high prices and lack of services and therefore support them having the same purchasing power as their non-remote counterparts, we would not want to create a perverse incentive whereby people come to remote regions because of the perceived greater financial benefits and have little chance of finding employment, place increased stress on our limited accommodation and have no access to training or social services. (sub. 42, p. 3)

However, it is unlikely that (at current payment rates) the RAA has much impact on where people reside. Indeed, judging by the Commission’s consultations, many recipients are probably unaware they are being paid the RAA. Some may only learn of the payment *after* moving to or from a RAA-eligible remote zone (and finding that their income support payment is adjusted). And those who are aware of the RAA would presumably want to weigh its value against the higher living costs it is intended to mitigate.

The current rates of the RAA (particularly in comparison with its associated income support payment) also mean that any impact on work incentives for people in remote areas is likely to be marginal. Further, the social security system seeks to mitigate the risk of creating disincentives to work by basing eligibility for income support payments (where recipients have the capacity to work) on mutual obligation requirements. These obligate recipients to undertake activities to improve their skills and job prospects in return for their income support payment.⁵⁷

⁵⁷ Income support payments associated with the RAA for which eligibility is based on mutual obligations include Newstart allowance, youth allowance, parenting payment (where the youngest child is 6 years of age or older) and some types of special benefit (DHS 2019b).

6.4 Is there a role for the RAA in contemporary Australia?

In assessing whether a RAA in some form remains appropriate in contemporary Australia, it is important first to recognise the RAA's place in the overall welfare system. The system provides a range of payments and allowances to address need or disadvantage among individuals or families, wherever they reside in Australia. In addition, governments provide various services (including free or subsidised health care, education and disability insurance), and specify certain universal community service obligations (such as that for telecommunications). The effect is to provide a minimum level of services for all Australians, regardless of means. These measures represent the bulk of things governments do to address the needs of people experiencing disadvantage.

For a focused study like this, the Commission generally takes the broad architecture of the welfare support system as given and then asks whether the RAA is warranted on its own merits.

The RAA is premised on income support recipients in remote areas being disadvantaged relative to income support recipients in non-remote areas, due to higher living costs. While the evidence is not definitive, the Commission has found that living costs generally tend to increase with remoteness, with the special areas and ordinary Zone A in Western Australia and Queensland having higher living costs, on average, than adjacent regional areas and state capital cities (chapter 2).⁵⁸ Likewise, using the ABS remoteness classifications, the Commission has found that there are higher living costs on average in *very remote* communities (like Meekatharra and Weipa) and *remote* communities (like Port Hedland and Mount Isa) than in *inner* and *outer regional* areas and the relevant state capital cities.

As with the ZTO, an area having higher living costs does not of itself justify government compensation. However, there are some important differences between the ZTO and the RAA that sway the balance towards retaining a RAA in some form.

First, whereas employers can pay wage premiums to attract and retain workers in remote locations, there is no equivalent 'market mechanism' to compensate income support recipients in remote places who are predominantly outside the workforce.

Second, RAA recipients are generally more likely to face impediments to moving locations (and in particular to moving from in-zone to out-of-zone) than those in jobs.

- Social and cultural connections and personal circumstances can anchor people to particular places. This is particularly relevant for Indigenous Australians in remote areas who, as noted, constitute over half of all RAA recipients and have a strong cultural attachment to country. Census data reveal that Indigenous Australians, particularly in very remote Australia, are much less mobile than non-Indigenous Australians.

⁵⁸ The Commission also found that living costs in ordinary Zone B are not significantly different from those in capital cities. The RAA does not apply to ordinary zone B.

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- Census data also indicate that people on very low incomes in remote areas, which would include RAA recipients, tend to be less mobile than those on higher incomes.
 - Further, a third of RAA recipients are 55 years of age or over (and one quarter are 65 or over), which may also render them less mobile than ZTO beneficiaries who will typically be of working age.
 - In some particularly remote places, land and housing markets can be highly illiquid, tying home-owning residents to the area. This means that disadvantaged people in remote areas are likely, on average, to have fewer options than otherwise similarly disadvantaged people in non-remote areas.

That said, rural Australia's history is one of different places expanding or contracting at different times, and shifts in location are a common experience for many Australians, both Indigenous and non-Indigenous. Change has been a constant in rural Australia, and there are good economic reasons for governments to avoid entrenching policies that 'pay' people to remain in high-cost areas.

Moreover, with the removal of the ZTO (as recommended in chapter 5), retention of the RAA would act as an additional disincentive for some on income support to find or take up work. Of course, many other factors affect people's choices to seek work or not, and at the current level of the RAA, the disincentive effect is likely to be relatively minor (as noted earlier). However, policy makers need to keep such effects in mind when assessing the future level of the RAA.

Nevertheless, the limits on the mobility of many RAA recipients, relative to most ZTO beneficiaries, mean that the former's decisions to live in a remote area, and to incur the higher living costs that entails, involve less 'real' choice. In turn, this strengthens the case for governments to provide some compensation for those higher costs.

A further consideration is that some places in remote Australia experience a very high level of disadvantage, and removing the RAA could significantly affect the level of economic activity in those places. For example, the Indigenous Reference Group to the Ministerial Forum on Northern Development (IRG) submitted that the provision of an effective RAA is particularly important to Indigenous communities in remote Australia.

Given the vast areas of socio economic disadvantage in remote Northern Australia and the fact that many of those areas are characterised by primarily Indigenous populations, ensuring efficacy of the RAA is an important issue for the IRG. Ensuring that people have access to a standard of living that allows them to live healthy lives and engage in education, training and the workforce are key pathways to participation in the economy. (sub. 87, p. 17)

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There is a rationale for a remote area allowance to address cost of living differences affecting income support recipients in remote Australia.

6.5 Refresh of current arrangements

Having determined that there is a sound policy basis for maintaining the RAA, this section assesses its current boundaries of eligibility and payment rates. It covers issues related to the RAA's current operation, many of which were raised by study participants in submissions and during consultations, and recommends reforms to improve the RAA's effectiveness and transparency.

Assessing RAA boundaries

Although the RAA falls under the income support system, the boundaries defining eligibility are linked to the income taxation system.⁵⁹ Zone A is largely based on boundaries drawn in 1945, and special areas are based on town sizes as measured in the 1981 Census. As with the ZTO, there are concerns that these zones no longer reflect remoteness in contemporary Australia. The Western Australian Local Government Association commented:

Given the considerable changes that have occurred in the economic, demographic and population profile of the nation, the existing zones need to be updated based upon the latest census figures to ensure that it is genuinely targeted at remote areas. (sub. 79, p. 3)

Study participants also highlighted specific examples of apparent anomalies in the boundaries. For instance:

- At the public forum in Wilcannia, participants noted that Wilcannia is not in-area for the RAA or the ZTO, whereas White Cliffs is zoned as a special area. Yet only 70 kilometres separates the towns, both are in the same postcode area, and both are in IRSD decile 1 (the most disadvantaged decile).
- During consultations in Tasmania, participants suggested that Queenstown (which is in Zone B and so is not eligible for the RAA) should be a RAA-eligible area because of its remoteness, adverse climate, high cost of living and relatively high level of disadvantage. (Queenstown's postcode is also in the most disadvantaged decile.)
- In submissions and at the public forum on Kangaroo Island, some participants suggested that the island (which is currently not in zone for the ZTO or RAA) should be redefined as a special area because of its remoteness and higher costs of living.⁶⁰
- Study participants (like Burke Shire Council, sub. 42) questioned whether Darwin, which is in Zone A and therefore in-area for the RAA, should be excluded from RAA eligibility because it is a capital city.

⁵⁹ *Income Tax Assessment Act 1936* (Cth), Schedule 2.

⁶⁰ For example: Gail Lane (sub. 5), Saskia Gerhardy (sub. 7) and Lisa Thompson (sub. 9).

Boundaries should be aligned with the ABS remoteness areas

A number of study participants⁶¹ suggested that areas of eligibility for the RAA (and the ZTO) should be based on ABS remoteness categories from the 2016 Census. Aligning RAA areas with the ABS definition of remoteness would have three key benefits.

- It would target remoteness more directly by making cities and regional areas ineligible.
- It would allow boundaries to be regularly adjusted to reflect contemporary definitions of remoteness, as ABS remoteness categories are updated every five years in response to new census data.
- It would make the process for determining boundaries more transparent.

The boundary analysis in chapter 4 found that while the ABS remoteness measures are not perfect, this approach is better than the alternatives. Consistent with this view, the Commission also supports aligning RAA areas with ABS areas of remoteness.

The impact of boundary reform

The ABS identifies two categories of remote areas: *remote* and *very remote* (chapter 1). To understand how RAA areas would change if they were to be aligned with ABS definitions of remoteness, the Commission has mapped five population distributions (based on 2016 Census data) (figure 6.3).

- RAA areas that are *very remote*.
- RAA areas that are *remote*.
- RAA areas that are not *remote* or *very remote*.
- *Very remote* areas that are not in a RAA area.
- *Remote areas* that not in a RAA area.

The Commission's boundary analysis is based on DSS (2018b) data at Statistical Area Level 2. These areas are generally better at identifying population centres than postcode areas, and are therefore to be preferred when assessing boundaries. This does mean, however, that the estimates in this section cannot be directly compared with the data based on postcode areas in section 6.2.

The map in figure 6.3 shows that significant areas of Australia are classified as either *very remote* or *remote* by the ABS but are not eligible for the RAA. These include large parts of Queensland and New South Wales, and some parts of the south-east of South Australia, the south-west of Western Australia and the west coast of Tasmania. The map also shows that the only ABS non-remote area currently eligible for the RAA is Darwin, which is classified as *outer regional*.

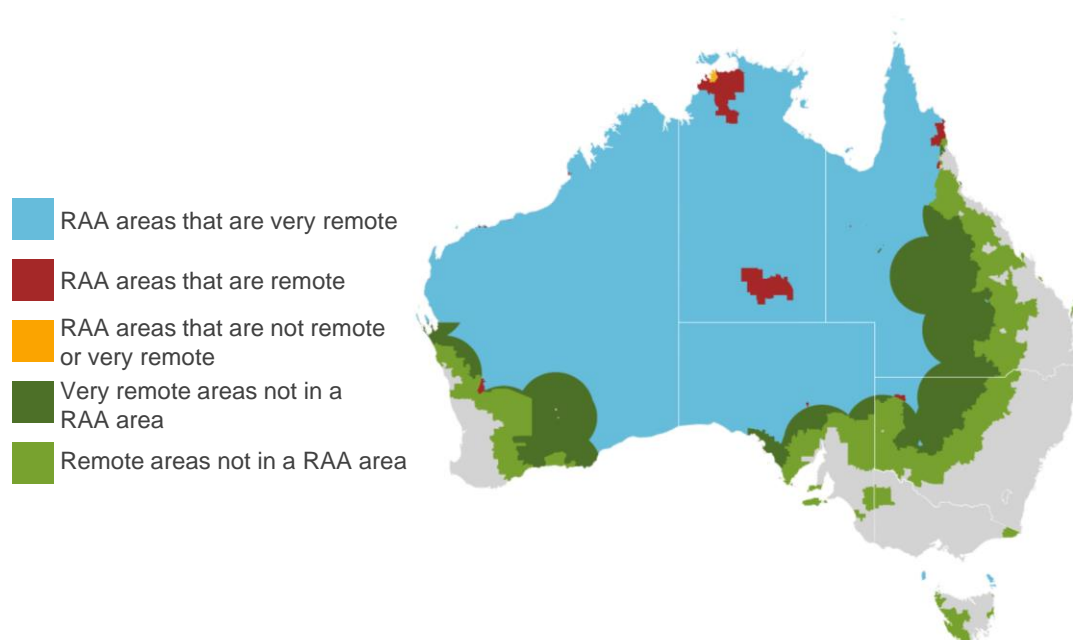
⁶¹ For example: RDA Tasmania (sub. 69, p. 8), CPA Australia (sub. 72), CA ANZ (sub. 73), WALGA (sub. 79), DPIRD WA (sub. 82).

The Commission has also considered how well the proposed areas correspond to areas of socio-economic disadvantage, as measured by the ABS 2016 IRSD (figure 6.4). Switching to the ABS *very remote* and *remote* areas would still leave some of the most disadvantaged people eligible for the RAA. The Commission estimates that about 20 per cent of the half a million people living in RAA areas live in decile 1, the decile of highest socio-economic disadvantage.

Moreover, in Darwin — which has a population of 152 000, and is the only place eligible for the RAA that is not *remote* or *very remote* — a switch to ABS remoteness areas would target the RAA more precisely to those in areas of high socio-economic disadvantage. This is because less than 4 per cent (5400 people) of the population of Darwin live within decile 1 postcodes, compared with 13 per cent (11 000 people) in decile 10.

The lower panels of figure 6.4 illustrate the substantial numbers of people living in remote areas who are also in areas of high disadvantage, but are not eligible for the RAA under the current boundaries (panel c). There are also substantial numbers of people living in *very remote* areas of high disadvantage who are not currently eligible for the RAA.

Figure 6.3 **ABS contemporary areas of remoteness and RAA areas^a**

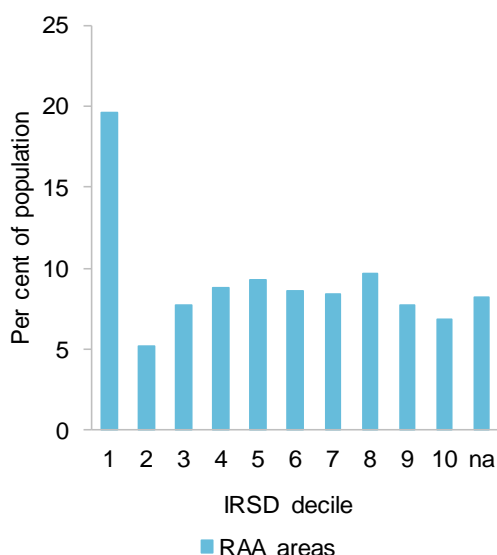


^a Although not visible on the map, some towns fully enclosed within the 'remote areas' are classified as *outer regional*, including Broken Hill (NSW), Roma, Emerald, Moranbah and Charters Towers (QLD), and Kalgoorlie and Kambalda West (WA).

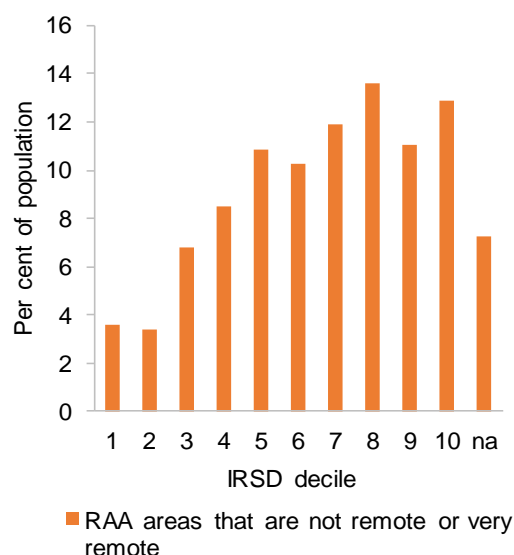
Sources: *Income Tax Assessment Act 1936* (Cth), Schedule 2; ABS Australian Statistical Geography Standard (ASGS): Volume 5 - Remoteness Structure, cat. no. 1270.0.55.005, July 2016.

Figure 6.4 The RAA and ABS areas of remoteness by level of disadvantage^a

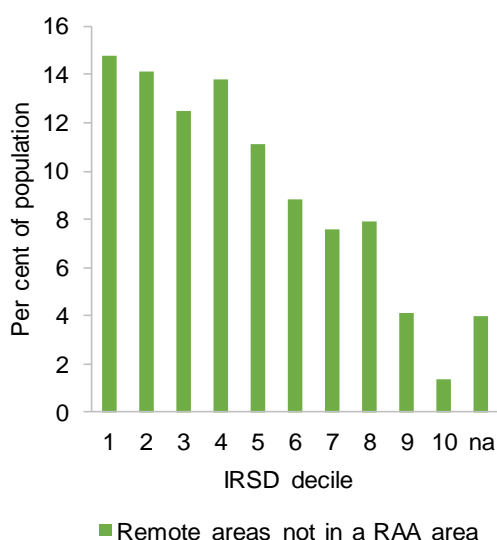
A. RAA areas correspond to areas of high disadvantage



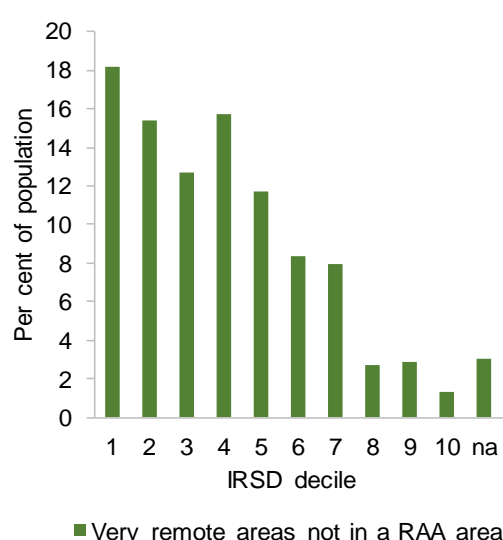
B. Darwin, the only RAA area that is not remote or very remote, generally has a lower level of disadvantage



C. There are people living in remote areas of high disadvantage who are not in-area for the RAA



D. There are people living in very remote areas of high disadvantage who are not in-area for the RAA



^a For these purposes, boundaries of *very remote* and *remote* areas are approximated to ABS Statistical Area Level 2. Disadvantage is estimated by the Index of Relative Socio-economic Disadvantage (IRSD), which is based on ABS 2016 Census data. Areas in IRSD decile 1 are the most disadvantaged, and those in decile 10 are the least disadvantaged.

Sources: *Income Tax Assessment Act 1936* (Cth), Schedule 2; ABS Census of Population and Housing (cat. 2033.0.55.001).

These summary statistics suggest several options for updating and defining RAA areas. Each option has its strengths and weaknesses. The Commission has focused on two: aligning RAA areas with the ABS *remote* and *very remote* areas, or only with the ABS *very remote* area (as was considered in chapter 4). Estimates of the impact of these options on RAA recipient numbers and expenditure are summarised in table 6.2.

The first option — aligning RAA areas with ABS *remote* and *very remote* areas — would expand the scope of the RAA. The Commission estimates that it would increase the number of people eligible for the payment by some 68 000, and at the same time exclude some 25 000 people living in Darwin. Places that would be brought into the RAA area include the Central Highlands (Tasmania), Wilcannia (New South Wales), Longreach (Queensland) and the Yorke Peninsula (South Australia). The net increase would be 43 000 recipients, which at the current payment rates would increase yearly outlays by \$17 million.

The second, and more restrictive, option is to align RAA-eligible areas with the ABS *very remote* area. As well as excluding those living in Darwin, this option excludes a further 33 000 people living in places like Katherine (Northern Territory), Mt Isa (Queensland), Port Hedland (Western Australia), Roxby Downs (South Australia), South Hedland (Western Australia) and West Arnhem (Northern Territory). Overall, it would decrease the number of people eligible for the RAA by a net 46 000. If the current rates for RAA payments are maintained, Australian Government outlays would decrease by \$18 million a year.

Table 6.2 Options for RAA boundary reform
Estimates of the impact on annual RAA recipient numbers and outlays^a

	Option 1: Align RAA-eligible areas with ABS remote and very remote areas	Option 2: Align RAA-eligible areas with ABS very remote areas
RAA recipient numbers in 2017-18	113 440	113 440
Increase in recipients from new areas that are eligible	68 205	12 389
Decrease in recipients in areas no longer eligible	25 050	58 344
Net change in recipients	43 155	-45 955
Total recipients	156 595	67 485
Outlays in 2017-18 (\$)	43 857 049	43 857 049
Change in outlays (\$)	16 684 109	-17 766 532
Total outlays (\$)	60 541 157	26 090 517

^a Changes in recipient numbers are Commission estimates based on the number of income support payment recipients eligible for the RAA by statistical area level 2 (extracted between 28 September and 30 September 2018). Point-in-time estimates were increased proportionately to provide estimates on an annual basis.

Sources: DSS (2018b); DHS administrative data (unpublished); DVA administrative data (unpublished).

On balance, the Commission has a slight preference for updating RAA areas to align them with the ABS *remote* and *very remote* areas. Including *remote* areas would be consistent with the evidence that people in both areas face higher costs of living and greater disadvantage than those in capital cities. Like any change in boundaries, this will no doubt create new apparent anomalies between towns eligible and ineligible for the RAA. Given the low value of the RAA, and the other restrictions on eligibility, the Commission considers that the effect of these anomalies would be limited, and certainly more so than under a more restrictive definition of remoteness.

DRAFT RECOMMENDATION 6.1 ADJUST RAA BOUNDARIES

The Australian Government should revise section 14 of the *Social Security Act 1991* (Cth) to align the remote area allowance geographical boundaries with the Australian Bureau of Statistics remoteness classification for *very remote* and *remote* areas.

Assessing RAA payment rates

The original (1984) fortnightly rates of payment for the RAA were \$14.00 for an individual, \$12.00 (each) for a couple and \$7.00 for each dependent child. RAA payment rates have increased only twice since the RAA's inception.

- On 1 January 1993, the RAA single and couple rates (but not the child dependant rate) were increased by 25 per cent in line with the increase in the ZTO. The increase was aimed at restoring the rebates and allowances to their 1984 real value (DVA 1992).
- On 1 July 2000, the RAA single, couple and child dependant rates were increased by 4 per cent, as part of a suite of changes made to pensions and allowances to compensate people receiving income support payments for the introduction of the GST (DSS 2019).

The single and couple rates of the RAA are nominally 30 per cent higher today than in 1984, and the child dependant rate is 4 per cent higher. However, no adjustments have been made to RAA payment rates in almost 20 years. A number of study participants noted that this has caused the RAA's value to gradually decline in real terms.

The Tasmanian Government suggested that the RAA could more effectively deliver on its objective if the payment was increased.

... there has been little change in the actual level of the zone tax offset and remote area tax concessions and payments over time, which has eroded their real value, potentially undermining the original intent of the schemes over time. (sub. 24, p. 2)

Similarly, Newmont Goldcorp stated that:

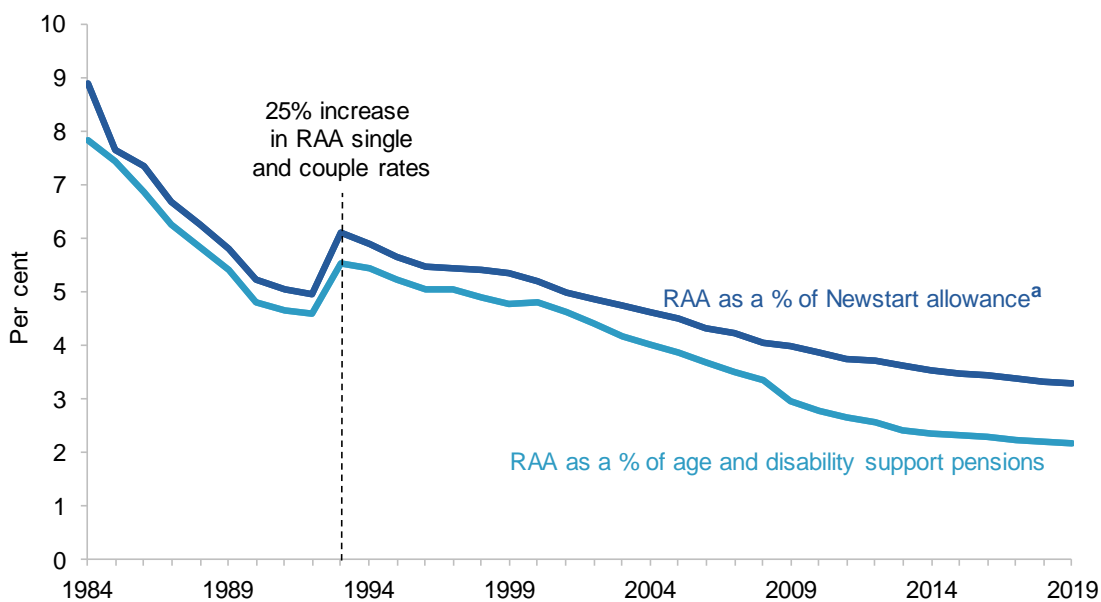
... these modest concessions [RAA and ZTO] are a small but important incentive for individuals to live in remote areas and should be increased and indexed in [the]future to maintain value in real terms. (sub. 78, p. 3)

The value of the RAA has also fallen relative to the value of income support payments. In 1984, for example, the RAA for singles was equivalent to 7.8 per cent of the maximum rate of the age and disability support pensions for singles. Today, it is equivalent to 2.2 per cent (figure 6.5).

If the RAA had been indexed on the same basis as income support pensions, the RAA for a single pensioner would now be \$66 per fortnight or just over \$1700 per year (compared with \$470 a year at present). The corresponding fortnightly rates of the RAA (if the same increase was applied) for couples and child dependants would be about \$57 and \$26, respectively.

While it is common practice to index income support payments, there is no standard practice for supplementary payments. The RAA and other supplementary payments that are not indexed include energy supplement, carer supplement, pensioner education supplement, the education entry payment, the language, literacy and numeracy supplement, the approved program of work supplement and child disability assistance (DSS 2019). There are also as many supplementary payments, such as commonwealth rent assistance and the pension supplement, that are indexed to the consumer price index (CPI), either yearly or twice-yearly.

Figure 6.5 RAA payment rates for singles
As a percentage of the maximum rates of pensions and allowances for singles



^a On 1 July 1991, unemployment benefit became Newstart allowance.

Source: DSS (2019).

One reason why the RAA payment is not indexed on a regular basis is the lack of an appropriate index. Ideally, the level of RAA payment would be adjusted to take account of both inflation and the difference in prices between remote and non-remote areas. Standard indexes like the CPI only measure price movements in capital cities, not the way those prices have evolved relative to prices in remote areas. Compiling and updating an index that was fit for purpose would mean incurring material fixed costs, and such an index would have limited usefulness for other purposes.

Taking these considerations into account, the Commission's preference is for the DSS to undertake periodic reviews of RAA payment rates. Given that there has been no adjustment to the RAA payment or its structure in nearly 20 years, the Australian Government should review the payment rates following completion of this study.

Setting the RAA payment is not straightforward

Setting the RAA payment is not a straightforward task. A number of different considerations should inform decision making.

First, it is relevant to consider other assistance measures that help to address cost-of-living pressures in remote areas. These include commonwealth rent assistance, which is available to eligible income support recipients in cities and remote areas alike and takes account of differences in rents. Other payments that vary by location include the allowances for isolated children and the relocation scholarship.

Second, the level of payment should reflect how technological and economic advances have affected the degree of hardship associated with living in remote Australia. This was a consideration when the RAA was increased in 1993.

It should be noted that although the rate of RAA has not varied since 1984 there have been some factors which have compensated clients residing in remote areas to some degree, including improvements to transport and communications as well as dependent child rebates. Therefore the increases to RAA alone do not reflect an actual return to their 1984 real value. (DVA 1992)

Third, it is important that the RAA payment level and structure do not generate perverse incentives. The RAA could, for example, be a disincentive to work (as discussed in section 6.3). Moreover, abolishing the ZTO (as recommended in chapter 5) could increase the disincentive slightly. There is also a jump in the marginal effective tax rate that arises when the means testing of the income support payment tapers to zero and thus cuts off eligibility for the RAA. However, given the current level of the RAA, this is only a hurdle across a small range of incomes.

Taken together, these considerations clearly do not lend themselves to a straightforward formula for determining the RAA, but they do imply that the appropriate rates would be less than that necessary to fully compensate recipients for higher living costs in remote areas of Australia. The Commission will undertake further work on the appropriate level of the RAA

with a view to the Australian Government revising the rates, if necessary, following the completion of this study.

Should the RAA be paid at a flat rate?

Another issue in reviewing the RAA is how it is structured. Currently, it is paid at a single rate across remote area zones and does not vary by income, but does vary according to the recipient's family circumstances: whether they are single or in a couple relationship, and whether they have dependent children.

The Commission's recommendation to align RAA-eligible areas with ABS remoteness areas begs the question of whether there should be two payment rates, one for *remote* and another for *very remote* areas. Preliminary cost-of-living analysis undertaken by the Commission (chapter 2) found some evidence that costs of living increase with remoteness. In principle, this might justify setting different RAA payment rates. However, it is difficult to quantify what the differential should be, and providing RAA at two different rates would add complexity and inevitably create new anomalies.

Some study participants suggested that consideration be given to means-testing the RAA supplementary payment. For example, the Northern Territory Government said:

The NT Government considers that good design elements of the ZTO and RAA are their simplicity to administer and equity. It could be argued these concessions would be more equitable if they considered the income of recipients and perhaps had a progressive scale of payments based on taxable income. The administrative cost of implementing such a scheme would need to be assessed. (sub. 60, p. 20)

The Commission notes that the income support payments of RAA recipients already taper with an individual's income through the income test limits. As such, the RAA as a share of its associated income support payment varies according to individual incomes. For example, the share of RAA as a percentage of the age pension is larger for a part-rate pensioner in receipt of \$10 000 per annum, at 4.7 per cent, than for a full-rate pensioner, at 2.2 per cent.

More generally, Australia's regions are always changing. This makes it important to periodically review not only RAA payment rates, but the measure itself, to ensure it is operating effectively. The DSS should conduct a public review about every ten years. Making the reviews public would help to increase both accountability and community awareness of the measure.

DRAFT RECOMMENDATION 6.2 REVIEW RAA PAYMENT RATES PERIODICALLY

The Australian Government should revise payment rates for the remote area allowance (RAA) following the completion of this study.

Thereafter, the Department of Social Services should review the RAA periodically. These reviews should:

- revise RAA payment rates, taking into account changes in living-cost differentials between remote and non-remote areas
- report on RAA annual outlays and recipient numbers
- consider any issues associated with administering the RAA.

The reviews should be made public.

7 FBT remote area concessions

Key points

- Under Australia's fringe benefits tax (FBT) regime, employers may claim tax concessions for some goods and services provided to employees working in designated remote areas.
 - Goods and services that may be eligible for concessions include housing (as an employee's usual place of residence) and transport to and from work (for fly-in fly-out and drive-in drive-out employees).
 - There are two types of concessions: exemptions (where the good or service is not subject to FBT), and partial concessions (where the taxable value of the good or service is reduced, often by 50 per cent).
- Stakeholders differ on whether the policy objective of the FBT remote area concessions is to provide equitable tax treatment where employers have operational reasons to provide particular goods and services to employees, or to promote regional development by giving employers greater financial capacity to attract and retain employees, or both.
- The use and economic effects of FBT remote area concessions vary:
 - The exemption for employer-provided housing (as usual place of residence) can provide significant value at the employee level, particularly for higher-income employees, and could cost as much as \$430 million per year in forgone FBT revenue at the national level. Usage is concentrated in certain areas — such as the Pilbara in Western Australia, and the Central Highlands and Bowen Basin in Queensland — and in industries such as mining, agriculture, and public services (including hospitals, police, and local government).
 - The partial concessions on employee-sourced housing are little-used. The 50 per cent concession is less generous than the full exemption on employer-provided housing and the compliance burdens are higher.
 - Use of other FBT remote area concessions (on residential fuel, meals for primary production employees and holiday transport) is minimal, in part because they provide limited tax savings and are overly complex with high compliance costs.
 - FBT exemptions for fly-in fly-out workers, while widely used, are likely to have only a minor influence on decisions to maintain a fly-in fly-out workforce.
- The FBT remote area concessions, as they are currently designed, do not address either of their purported objectives effectively.
 - State and Territory governments carry primary responsibility for regional development, and each jurisdiction will have its own challenges and different priorities. A broadly-applied tax concession is unlikely to cost-effectively incentivise employees or employers to move to, or invest in, specific regions in a way that aligns with these priorities.
 - FBT remote area concessions help to address inequities inherent in the FBT regime, but they are not fit for purpose. The current concessions are overly generous and complex, thereby creating other inequities.

Australia's FBT laws contain a number of concessions associated with the employment of people in remote areas. Although these concessions have elements in common with the zone tax offset (chapter 4) and remote area allowance (chapter 6) — in that they all provide assistance to people or businesses through the tax and transfer system based on their location in Australia — they exhibit significant differences in their objectives, operation, and effects. This chapter examines:

- the operation of the FBT remote area concessions (section 7.1)
- how they are used, and their employment and economic effects (section 7.2)
- whether the FBT remote area concessions are effective in achieving their proposed objectives (section 7.3).

7.1 Operation of FBT remote area concessions

FBT seeks to protect the integrity of the tax system

FBT was introduced in 1986 through the *Fringe Benefits Tax Assessment Act 1986* (Cth) (FBTAA) to tax remuneration provided to employees in a form other than salary or wages (that is, 'fringe benefits'), and serve as an integrity measure to prevent remuneration in kind being used to lower personal income tax obligations. In introducing the Bill, the then-Treasurer said:

This historical Bill introduces another major element of the tax reform package, a system for effectively taxing remuneration obtained as fringe benefits, the absence of which has allowed many thousands of Australians to escape their fair share of tax while adding their burden to the backs of their fellow taxpayers. This Bill deals with income taken as fringe benefits, the most rutted-in tax shelter and the most untouchable income of all. No previous government has had the courage to confront it. Entertainment, motor cars, free travel, subsidised housing et cetera have lifted the living standards of many Australians at the expense of everyone else. This Government has said that this unfairness must end. This historic Bill ends it. (Keating 1986, p. 3017)

The introduction of FBT was also accompanied by other tax reforms, including substantial reductions in the top marginal individual tax rate (from 60 per cent to 49 per cent) and the introduction of capital gains tax. These changes served to broaden the tax base and increase the comparability of tax rates on different sources of income (Freebairn 2005).

FBT is levied at a flat rate of 47 per cent,⁶² equivalent to the top marginal individual income tax rate (plus the Medicare levy). It applies to any goods and services provided to employees (including reimbursement of employee expenses), except where an exemption is specified in legislation; remote area concessions are just some of the many exemptions and partial concessions set out in the FBTAA.

A key feature of the FBT regime is that the high rate of tax discourages the provision of goods and services in favour of salary or wage income (hereafter, wage income), except where there is concessional treatment. This is because goods and services fully subject to FBT are taxed at a rate equivalent to the top marginal personal income tax rate, but most employees face a lower marginal income tax rate as their income is less than \$180 001 per year.

Reflecting its role as an integrity measure (which dissuades the provision of remuneration in kind instead of wage income, and thereby increases income tax revenue), the direct revenue from FBT is relatively modest: about \$4 billion, or about 1 per cent of total Australian government tax revenue in 2016-17. Only a small subset of employers (about 5 per cent) provide goods or services that require them to lodge returns and pay FBT (ATO 2019b).

Since its introduction, the FBT regime has been criticised on several grounds. Reviews have identified problems such as complexity, compliance costs, and the multiplicity of concessions (box 7.1). To put this in perspective, estimated forgone tax revenue from all the FBT concessions is in the range of \$6–10 billion, which is well in excess of collected FBT revenue.⁶³ Many seemingly arbitrary rules and anomalies likely reflect the political and technological realities of the time when these decisions were made, including the stipulation of meals and board in some industrial awards.

⁶² Since 1986, the FBT rate has varied between 46.5 and 49 per cent, reflecting changes in the top individual marginal tax rate. (From 1986 to 1988, it was also aligned with the company tax rate). The tax is levied on a grossed up value of the taxable value, this being the taxable value of the fringe benefit multiplied by a gross-up rate (2.0802 where the employer can claim a GST credit, or 1.8868 where they are not entitled to claim GST credits on the benefit). The gross-up rate is applied to reflect the gross wages employees would have to earn at the highest marginal tax rate (including the Medicare levy) to buy the goods or service after paying tax. This means that for each dollar of a fully FBT-liable fringe benefit provided to an employee, the employer will also be liable to pay FBT of about 89 cents (or 98 cents for goods and service that are subject to GST).

⁶³ For 2017-18, the total forgone revenue for estimated FBT concessions is \$5.6 billion, with order-of-magnitude estimates for unquantifiable concessions in the range of \$0.5–4.6 billion (Treasury 2019b).

Box 7.1 **Issues identified with FBT more broadly**

Previous reviews have identified issues with the complexity and design of FBT arrangements. In particular, the Henry review (2009, p. 41) found that:

Australia's fringe benefits tax system is complex, like those of many other countries. There are, however, some differences in the way in which Australia taxes fringe benefits. While the FBT system has the same broad tax base as other countries, it relies on a higher number of statutory valuation rules and a greater number of concessions and exemptions. The complexity of Australia's FBT system is exacerbated by the taxation of fringe benefits in the hands of employers, which has required the introduction of a large number of supplementary rules to ensure that fringe benefits are factored into means tests in the tax and transfer systems.

In addition to the associated administrative and compliance burdens, the Henry review identified several equity concerns associated with the current design of FBT.

- The tax is inequitable as it is applied at the top marginal tax rate rather than an employee's marginal tax rate, which makes the provision of fringe benefits to lower income earners financially unattractive relative to paying wages.
- Further, the use of the grossed-up FBT value for reportable fringe benefits in means testing for social security payments means that the reported value is higher than it might be if based on an employee's marginal income tax rate. (However, not all fringe benefits are reportable on individuals' payment summaries — benefits that attract the remote area concessions are defined as 'excluded' benefits and are not reportable for these purposes.)
- Many provisions in the FBTA that allow employers to reduce their FBT liability (including exemptions, partial concessions that reduce the taxable value, and statutory valuation methodologies) are no longer justifiable as they 'have a historical basis that is no longer relevant' (p. 44) or encompass expenses that are private in nature.

The latter is a particular concern in the not-for-profit (NFP) sector; employees of certain NFPs (including public benevolent institutions and health promotion charities) receive a \$30 000 capped exemption from FBT, whereas for hospitals and ambulance services there is a \$17 000 cap. In addition, some categories of benefits do not count towards the cap. The Henry review (2009, p. 45) found that:

While the FBT concessions provided to certain NFP organisations help them deliver their services, they result in horizontal inequity and undermine the perceived integrity and fairness of the tax system.

The review suggested a number of reform directions, including treating benefits more like wage income (by taxing them in the hands of employees where practicable), adopting greater use of market valuations, reducing compliance costs, and reviewing existing concessions and exemptions.

More recently, the Board of Taxation has commenced a review of FBT compliance issues, but is yet to release its findings.

Employers in remote areas can claim relief from FBT

Under the FBT regime, businesses may claim tax concessions for some goods and services provided to employees working in designated remote areas. The remote area concessions take two different forms:

- exemptions, whereby the good or service is not subject to any FBT

- partial concessions, whereby (in most cases) the taxable value of the good or service is reduced by 50 per cent for FBT purposes.

Remote area concessions can be further grouped into three categories (figure 7.1):

- concessions (both partial concessions and exemptions) on housing used by employees in remote areas as their usual place of residence
- exemptions for temporary accommodation, meals and transport for fly-in fly-out (FIFO) and drive-in drive-out (DIDO) employees
- other concessions for employees in remote areas.

Figure 7.1 **A snapshot of the FBT remote area concessions**

Housing for remote area residents	
Exemptions <ul style="list-style-type: none"> • Employer-provided housing that is an employee's usual place of residence 	Partial (50 per cent) concessions <ul style="list-style-type: none"> • Other housing assistance where employees source their own accommodation, including rent reimbursement, mortgage interest and other employee home ownership arrangements
Temporary accommodation, meals and transport for FIFO and DIDO employees	
Exemptions <ul style="list-style-type: none"> • Transport for employees to worksites in designated remote areas • (Other exemptions are available, including for temporary accommodation and meals while away from home, although these are not explicitly linked to remote area definitions) 	Partial (50 per cent) concessions <ul style="list-style-type: none"> • N/A
Other remote area concessions	
Exemptions <ul style="list-style-type: none"> • Meals provided to primary production employees 	Partial (50 per cent) concessions <ul style="list-style-type: none"> • Residential fuel (for use in properties where the remote area housing concessions are used) • Holiday transport

Housing concessions for employees' usual place of residence

A range of concessions are available where employers provide housing assistance to employees who both work and permanently reside in a designated remote area. Some arrangements for remote area housing are exempt from FBT, while others may only be eligible for a partial concession.

Employer-provided housing

Employer-provided housing in specified remote areas, for use as an employee's usual place of residence, is exempt from FBT. Housing is classed as employer-provided where the employer either owns the property or holds the lease on the property in its own name.

There are some broad eligibility requirements: both the resident and the place of employment must be in a remote area, and the arrangement must be at arm's length and not entered into for the purpose of obtaining the exemption.

In addition, to be eligible for the exemption, the accommodation must be deemed necessary under one of three legislative tests. The FBTAA, s. 58ZC(2)(d) defines accommodation as *necessary* if:

- the nature of the employer's business is such that employees are liable to be required to frequently move from one residential location to another
- there is insufficient suitable accommodation available near the place of employment (other than that provided by the employer)
- it is *customary* for employers in that industry to provide free or subsidised accommodation for employees.

The operation of these tests means that access to the concessions varies between employers in different industries, as employers in industries that satisfy the customary requirement do not need to meet either of the other two tests.

Employee-sourced housing

Employers can also supply other forms of housing assistance to an employee whose house is their usual place of residence and is located in a designated remote area, but is not provided by the employer. (These forms of housing assistance are hereafter referred to as 'employee-sourced housing', although the forms of housing assistance are quite varied.) As specified in s. 60 of the FBTAA, they include:

- payment of rent, where the property is leased directly by the employee
- payment of mortgage interest on the employee's residential property
- other forms of housing assistance, including loans to employees, provision of land to build on, and payments for option fees or repurchase consideration payments related to buyback provisions under home ownership schemes.

These attract partial FBT concessions, and in most instances their taxable value is reduced by 50 per cent. However, for reimbursement of an employee's rent (s. 60(2A) of the FBTAA), the taxable value of the reimbursement is reduced by 50 per cent of the gross rent. This means that, if the employer reimburses an amount less than the total rent, the reduction in taxable value will be greater than 50 per cent — and can be 100 per cent if the employer reimburses no more than 50 per cent of the employee's gross rent.

For the concessions on assistance with employee-sourced housing to apply, one of the three legislative tests described above must be satisfied to show that the assistance is *necessary*. However, the legislation contains an additional requirement that the housing assistance be *customary* in the industry, which essentially renders the *necessary* provision redundant and notionally limits access to the concession to employers in particular industries.

Temporary accommodation, meals and transport for fly-in fly-out/drive-in drive-out workers

The FBTAA includes a number of exemptions for goods and services provided to people employed on a FIFO basis: specifically, for temporary accommodation, meals and transport. (Hereafter, the term ‘FIFO’ encompasses both FIFO and DIDO unless otherwise stated.)

Although FIFO arrangements are common for employers with operations in regional and remote areas, only one of the concessions in the FBTAA relating to FIFO workers explicitly links eligibility for the concession to remoteness (defined by geographic boundaries). Section 47(7) allows employers to claim an exemption for the costs of employee travel to and from the worksite if the worksite is in a designated remote area (or is at sea, like an oil rig).

The living-away-from-home allowance provisions (Division 7 of the FBTAA) complement the remote area transport concession (s. 47(7)) in that they allow employers to claim FBT exemptions for food and temporary accommodation provided to FIFO workers. These exemptions can be claimed by employers regardless of where the employee resides, but are generally only available for a maximum period of 12 months in a particular location. However, the 12-month time limit does not apply for FIFO workers who meet certain criteria: for instance, that they work on a rotational basis, that it would be unreasonable to commute between their normal residence and workplace on a daily basis, or that it is customary in the industry to provide these goods and services to employees.

Notably, the FBTAA includes another provision that might allow an employer to claim FBT exemptions for FIFO transport, accommodation and meals, rather than using the remote area transport concession and/or living-away-from-home allowance. This arrangement can be used regardless of whether the work site is in an FBT remote area. Employers using FIFO arrangements can structure their employment arrangements under the ‘otherwise deductible’ rule⁶⁴ to claim that employees are ‘travelling for business’ rather than living away from home in a way that mirrors the tax treatment of business travel expenses more generally. For example, under this arrangement an employee’s base of operations might be their local airport — so flights to and from this base, plus meals and accommodation provided on site, may be FBT exempt. The application of exemptions to these kinds of arrangements has been determined by case law (the John Holland case in 2014). The ATO has since issued a draft taxation ruling (TR 2017/D6) providing the Commissioner of Taxation’s preliminary view on when deductions for employee travel expenses are allowed.

⁶⁴ FBT exemptions can be applied under this rule if the employee would have otherwise been able to claim the expenditure as an income tax deduction.

Other remote concessions and exemptions

There are three other concessions for employees in remote areas.

- **Residential fuel.** Section 59 of the FBTAA includes a 50 per cent concession on the provision of residential fuel (electricity and gas).⁶⁵ It also applies where the employer reimburses employees' expenditure on residential fuel. The concession can only be used with a unit of accommodation that qualifies for either an employer-provided housing exemption or a particular partial concession on employee-sourced housing.
- **Meals for primary production employees.** There is an exemption for the provision of meals to employees of primary production industries located in the FBT remote areas. The exemption applies only to meals that are ready to consume and are provided on working days. The meals can be provided in various ways, including the reimbursement of employee expenses. They do not have to be provided onsite by the employer.
- **Holiday transport.** The provision of holiday transport to remote area employees can qualify for 50 per cent concessions under ss. 60A and 61 of the FBTAA. These concessions are capped, and are restricted to employees for whom the entitlement is specified in an award or it is an industry custom. In these cases, the concession can apply to return travel exceeding three working days, either to the employee's previous location of residence or to the capital city in the state where they work (or Adelaide for employees in the Northern Territory, and Perth for employees on Christmas Island). If employees are not travelling to these destinations, the concession will only apply to an amount equivalent to travel to the state capital. Holiday transport can also include the provision of accommodation, meals and incidentals used while in transit. Further, the concession applies to designated family members when they live with the employee in a remote area, or when they are travelling for the purpose of meeting the employee.

Remote area concessions apply broadly across most of Australia

Eligibility for the FBT remote area concessions is determined by the employee's distance from 'eligible urban areas', places that had sufficiently high populations in the 1981 Census. The population threshold that defines an eligible urban area is higher if the urban area is located in a zone tax offset (ZTO) zone.

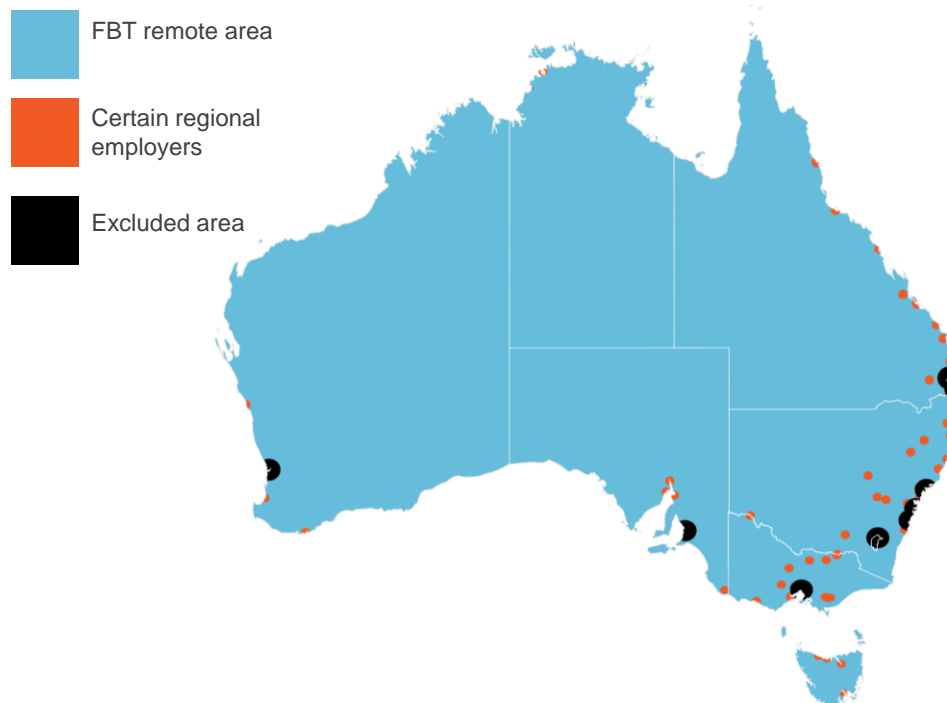
- In ZTO Zone A or B, for a location to be remote for FBT purposes it must be at least 40 km from an 'eligible urban area' of 28 000 or more people and at least 100 km from an eligible urban area with a population of 130 000 or more.
- Outside Zone A or B, for a location to be remote it must be at least 40 km from an eligible urban area with a population of 14 000 or more and at least 100 km from an eligible urban area with a population of 130 000 or more.

⁶⁵ Water is not subject to the concession, but is exempt when provided in conjunction with employer-provided housing.

- For exempt remote area housing provided to employees of certain regional employers (essentially public hospitals, charities and police), any location at least 100 km from an eligible urban area with a population of 130 000 or more counts as remote.

These criteria lead to a definition of ‘remote’ for FBT purposes that covers most of the Australian landmass, including parts of Victoria (which is wholly outside the ZTO zones). However, access is limited in the larger urban centres within Zones A and B (figure 7.2). The Commission estimates that the FBT remote area had about 3.4 million residents at the time of the 2016 Census.

Figure 7.2 FBT remote areas cover most of Australia^a



^a Areas are approximate only. Certain regional employers can use the housing exemption in additional areas. Eligibility is based on distances by road (as they existed in 1986) rather than straight line distances, so distances have been adjusted by a factor of 0.7 to approximate road distances. The ATO publishes lists of locations considered remote or non-remote as guidance, although these are not comprehensive.

Source: Commission estimates.

As this definition is based on 1981 populations, it covers some population centres that would now exceed the thresholds. For example, using population data from the 2016 Census, Kalgoorlie (and locations within a 40 km radius) would no longer be considered remote. Around Cairns and Townsville, areas within a 100 km radius would no longer be deemed remote, and so the housing exemption would no longer be available to ‘certain eligible employers’ in these locations.

Several submissions to this study noted the debates about the constitutionality of basing tax concessions and payments on specific geographic locations (chapter 1). For example, the Indigenous Reference Group to the Ministerial Forum on Northern Development noted:

Prima facie, taxation mechanisms such as the ZTO, FBTRAC and RAA under which residents located in defined geographic areas of Australia can exclusively access reduced taxation burden would seem to impugn the Constitutional bar on discriminating between States or parts of States. (sub. 87, p. 19)

There is no clearly stated objective, and stakeholder views differ

Although the FBTAA does not specify the objectives of FBT remote area concessions, two possible policy objectives are often advanced in support of the arrangements. The first is that the provision of some goods and services is an operational requirement, and so it would not be appropriate to tax them as if they were provided in lieu of wage income. This is because the full FBT rate acts to penalise and discourage the provision of goods and services in favour of wage income. However, in cases where provision of the good or service is unavoidable this creates a larger tax obligation (in most cases) than if the employee was paid the equivalent in wage income.

Some participants have argued in support of this objective. For example, the Minerals Council of Australia (MCA) submitted that the arrangements recognise cases where the costs of housing and transport are business expenses rather than employee benefits:

The purpose of the Fringe Benefits Tax (FBT) FBT legislation is to ensure equitable tax treatment of salary and wage income with non-cash benefits provided to employees in respect of their employment services. FBT rules recognise that housing and transportation costs are a necessary business expense in order to operate an efficient, modern mining business. The costs are incurred by mining companies in order to employ a suitable workforce in remote areas. The costs are not employee benefits in the sense of that term applying to non-salary forms of remuneration. (sub. 76, p. 3)

While CPA Australia noted:

... the FBT concessions were not intended as incentives to encourage remote area employment, but rather were an acknowledgement that particular forms of employment would necessitate certain costs which were not a 'benefit' to the employee but would have otherwise been taxable under the *Fringe Benefits Tax Assessment Act 1986* (FBTAA). (sub. 72, p. 5)

The other proposed objective, as expressed by many participants, is that the concessions should promote regional development — for instance, by helping to overcome impediments to attracting and retaining staff in remote areas. Participants also suggested changes to the arrangements to advance the cause of regional development. Some examples of these views are provided in box 7.2.

This broader regional development objective appears to have been a central consideration in the development of the concessions, particularly the expansion from partial concessions to full exemptions for housing in 1997 and 2000 (box 7.3).

The effectiveness of the FBT remote area concessions against these objectives is assessed in section 7.3.

Box 7.2 Many participants think the FBT concessions should assist regional development

Local governments had regional development aims for FBT concessions:

Our City's population, like many regional centres across Australia, has been declining since 2013. 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. (City of Kalgoorlie-Boulder, sub. 52, p. 3)

FBT exemptions help [the council] offer non-cash benefits at a lower cost by making salary packaging more attractive [for employees]. From a corporate point of view this reduces cost and enables us to provide (more) appealing employment packages than we would otherwise be able to. (LGANT, sub. 66, p. 2)

Other participants expressed similar views:

Accordingly, the FBT remote area concessions remain a sensible way of incentivising employees to relocate due to the connection with employment. An employee who is provided with a number of benefits to entice relocation, including remote area housing funded by their employer (or through salary packaging, enabling a real ongoing personal tax saving) at no tax cost, is in a financially improved position compared to if they remained in their original place of residence. This satisfies the modern day economic policy of migrating individuals away from metropolitan areas. In summation, we consider that the FBT remote area concessions are an important tool to distribute employment and population growth across Australia, as well as supporting smaller regions. (PwC, sub. 55, p. 3)

With regard to the FBT concessions and their expansion in 2000, one of the objectives for these concessions was to 'make it easier for employers to attract and retain staff in remote areas'. The NFF argues the current FBT concessions continue to support this objective. (NFF, sub. 85, p. 2)

Box 7.3 **Evolution of the FBT remote area concessions over time**

The FBT remote area concessions have been changed over time, often on the pretext of fostering regional development.

Provision of housing to employees is a long standing practice that pre-dates the introduction of the FBTA. Upon commencement in 1986, remote area housing concessions were included in the Act. Existing income tax measures that provided similar concessions were then repealed.

Initially, remote area housing was limited to a partial concession (introduced at 40 per cent, but changed to 50 per cent soon thereafter). The remote area housing *exemption* was not introduced until 1997 (through the *Taxation Laws Amendment Act (No. 3) 1997*). Initially it was introduced for primary production employers only, following a 1996 election commitment.

The remote area housing exemption was then extended to all employers in 2000 under the *A New Tax System (Fringe Benefits) Act 2000* (Cth). The stated objective of the amendment in the explanatory memorandum to the A New Tax System (Fringe Benefits) Bill 2000 was to enhance the fairness of the taxation system by extending the exemption. Additionally, in the second reading speech to the bill, the then Minister for Financial Services and Regulation, the Hon. J. Hockey said:

The bill should make it easier for employers to attract and retain staff in remote areas because it will extend the fringe benefits tax exemption for remote area housing to all employers ... (Hockey 2000, p. 14278)

Another notable change to the FBT remote area concessions, which was introduced with the aim of improving access for small business (Brough 2005, p. 1), was the removal of the restriction of the remote area housing exemption to industries where it was 'customary' in 2005 as part of the *Tax Laws Amendment (2005 Measures No. 1) Act 2005*.

7.2 **Use and economic effects of FBT concessions**

Determining the extent to which the FBT remote area concessions are used means confronting significant data issues. Employers are not required to report exempt goods and services to the ATO, and the expense is not discernible from their other expenses. Where partial concessions are used, the reporting is insufficiently detailed to separate out the remote area concessions from other concessions that apply Australia-wide.

In spite of these challenges, the Commission has attempted to shed some light on the use of these concessions to provide a better sense of their potential costs to the Government, and to gauge their economic impacts. This process has included surveying three sectors, namely mining, agriculture and local government administration (appendix C).

Remote area housing for usual place of residence

Housing used as an employee's usual place of residence in remote areas can attract either a full exemption, where the housing is provided by the employer, or a partial concession where the employer offers financial assistance with employee-sourced housing. The exemption for employer-provided housing is the big-ticket item, being more frequently used and conferring larger tax savings than the partial concessions on employee-sourced housing.

Remote area housing concessions can be of significant value to employees

Concessions on housing (for use as an employee's usual place of residence) are uncapped and can be worth many thousands of dollars at the employee level (box 7.4). Tax savings to individual employees will vary depending on the value of the housing, how the housing is provided (which determines the rate of the concession), and the employee's level of income and resulting marginal tax rate.

The design of the FBT regime means that employers have limited incentives to provide housing unless they can claim a concession (section 7.1). Without a concession, the tax treatment is neutral at best: indeed, most employees (being below the top marginal tax rate) are better off paying for non-concessional goods and services from their after-tax income than having them provided as part of a salary packaging arrangement. This means that the gross value of the FBT concession overstates the actual forgone tax revenue. In the absence of the concessions, housing might not be provided in a way that attracted FBT.

In determining the value of the housing concessions, the relevant comparison is the equivalent cost of paying the employee the same amount of total remuneration as wages, with the employee then paying for housing from after-tax income (so that the total cost to the employer is the same). Even in situations where there is no alternative to employer-provided accommodation, employers could lease accommodation to employees (and pay a commensurately higher wage income) in the absence of the concessions. As explained by one employer in the pastoral sector:

If the remote housing exemption were to be removed, this would provide a disincentive to improve housing ... It would probably also mean that salary packaging arrangements would need to be altered to convert the provision of accommodation in an employment contract, to a rental agreement. In order that employees would not be out of pocket, salaries would need to be increased, but net pay would not rise, compounding the complexity of the employment arrangement. (AJ & PA McBride Ltd, sub. 61, p. 4)

Box 7.4 Tax savings from FBT concessions can be substantial^{a,b,c,d}

Tax savings to individuals from FBT concessions depend on income, the value of the good or service and how it is provided. To illustrate this, the Commission has considered the tax savings to four employees — Mya, Josh, Tony and Nahid — from receiving housing or housing assistance, compared with the employees paying for housing from their after-tax incomes (shown below). These calculations illustrate a few points.

- Tax savings from the concessions are larger for those on higher than average incomes. This is because there is a greater difference between their marginal tax rate and the effective tax rate on exempt (0 per cent) or concessional (30.7 per cent) housing or housing assistance.
- Exemptions are more valuable than the partial (50 per cent) concession. While a 50 per cent concession might appear to provide half the value of a full exemption, this is not always the case where employees' incomes are below the top personal income tax bracket.
- The concessions can be significant for higher-income employees with more expensive housing. Together with the uncapped nature of the arrangements, this means that employees on higher incomes get disproportionately larger tax savings from the concessions.

Overall, individual tax savings vary, but can be quite substantial.



Mya's employer is offering a salary package of \$80k p.a

Housing costs are \$300/wk (\$15.6k p.a)

Tax savings from FBT concessions

If full exemption: \$5 382

If partial (50%) concession: \$851



Josh's employer is offering a salary package of \$250k p.a

Housing costs are \$300/wk (\$15.6k p.a)

Tax savings from FBT concessions

If full exemption: \$7 332

If partial (50%) concession: \$3 666



Tony's employer is offering a salary package of \$30k p.a

Housing costs are \$300/wk (\$15.6k p.a)

Tax savings from FBT concessions

If full exemption: \$2 842

If partial (50%) concession: **-\$4 075**



Nahid's employer is offering a salary package of \$250k p.a

Housing costs are \$500/wk (\$26k p.a)

Tax savings from FBT concessions

If full exemption: \$12 220

If partial (50%) concession: \$6 110

^a For employer-owned property, 'housing costs' would be the equivalent market rent. ^b In these examples, the partial concession (a 50 per cent reduction in taxable value) is applied to the total housing costs. Where employers reimburse less than the full amount of an employee's gross rent expenses, the reduction in taxable value can be larger (up to 100 per cent). ^c For simplicity, the following have been excluded: the effect on the employer's superannuation guarantee liability, other costs associated with labour (for example, payroll taxes), and tax offsets and deductions. ^d Estimates are based on 2017-18 income tax rates.

Source: Commission estimates.

Use of the housing concessions is concentrated in certain industries and areas

The Commission estimates that there are about 52 000 employer-provided dwellings in the FBT remote area⁶⁶ (appendix C). Of these, about 36 500 to 46 500 are estimated to be provided by an employer as a usual place of residence. Most, if not all, employers in the FBT remote area are expected to claim the exemption for the housing they provide. Comprehensive data on employee-sourced housing are not available.

ABS Census data indicate that employer-provided dwellings are concentrated in the following industries: agriculture, forestry and fishing; mining; education and training; and public administration and safety (appendix C). About half of all employer-provided dwellings located in the FBT remote area are provided by employers in these four industries. Responses to a questionnaire distributed to employers in the mining and agriculture sectors, and some local councils, indicated that it is much more common for employers to own the property than to lease it (appendix C). Within the FBT remote area, employer-provided dwellings are concentrated in regions where these industries are dominant — such as the East and West Pilbara (Western Australia), the Central Highlands (Queensland), the Bowen Basin (Queensland) and the Kimberley (Western Australia) (appendix C). These five regions contain nearly a quarter of all employer-provided dwellings in the FBT remote area.

The Commission has estimated the value of the exemptions (in terms of forgone FBT revenue) for employer-provided housing (as usual place of residence) to be between \$210 million and \$430 million (appendix C). This likely overestimates the amount of FBT revenue the Government would raise in the absence of the concession, as some employers would cease to provide housing if it attracted FBT.

It is not possible to determine the use and cost of the concessions on employee-sourced housing with sufficient accuracy to provide an estimate, although they are likely to be concentrated in the same industries and areas as employer-provided housing. However, the total cost of these concessions is expected to be much less than the cost of the exemption for employer-provided housing for two reasons. First, feedback from the Commission's visits, submissions and questionnaire on FBT use indicate that these concessions are less frequently used than the exemption for employer-provided housing. Second, the tax savings from these partial concessions are much less than the tax savings from a full exemption.

Participants highlighted the importance of the concessions in attracting workers ...

Any employment effects the concessions might have would be concentrated in the above areas and industries. Concessions tend to increase employment in regions where they are heavily used by reducing employment costs. In doing so, they also tend to draw resources away from other regions (or industries in the same region) that do not access the concessions. As such, the net effects on employment are complex and extend beyond the directly-affected areas.

⁶⁶ Including dwellings provided by 'certain regional employers' in the additional declared areas.

Participants in this study provided anecdotal evidence on the effects of the FBT concessions. Many highlighted the importance of the FBT concessions as a means of attracting and retaining staff in remote areas (box 7.5). As noted by Agribusiness Australia:

The provision of a suite of FBT remote area concessions to an eligible employee can provide a significant economic benefit to that employee. Such an economic benefit has the potential to influence an individual's decision to seek and/or accept a role in a remote location (sub. 46, p. 3).

In particular, some employers in local government argued that the FBT concessions were critically important to their ability to provide services in a budget-constrained environment. According to Livingstone Shire Council in Queensland:

Current and potential employees in the Livingstone Shire Council benefit from the FBT Remote Area Concessions ... This may be the difference between an employee staying with their employer or seeking to relocate. This benefits the family and the employee which is ... a factor in an individual or family staying in the region or seeking work elsewhere. (sub. 29, p. 2)

Box 7.5 Some employers use the concessions extensively

Hamilton Island Enterprises (HIE) submitted that:

HIE employ over 1,000 employees on Hamilton Island and is the biggest single employer in the region, providing significant benefit to the local economy. HIE requires its frontline staff to live on Island, due to a lack of suitable transport options to commute to and from the mainland each day. ...

The FBT remote area concessions ensure that our staff are not penalised for the various and significant disadvantages of living and working on Hamilton Island, and assists us to actively encourage individuals to move to, live and work on the Island ... (sub. 18, p. 2)

According to PwC:

Within the last 24 months, we have seen an increase in the take up of the FBT remote area concessions across our client base in Queensland and Western Australia. The industries of employers who are using the FBT remote area concessions include mining, construction, pastoral, health, timber and power generation. In all cases, the increase in take up was due to employers needing to find ways to attract and/or keep talent. (sub. 55, p. 2)

The Central Land Council argued that it:

... relies upon a range of Government concessions and employer-provided allowances with concessional tax to attract and retain employees ... Removal or diminution of the concessions would have a detrimental impact on staff recruitment and retention ... (sub. 35, p. 2)

King Island Council submitted that:

Based on its own experience, and discussion with other employers on the Island, Council strongly advocates for the continuation of the Fringe Benefit Tax (FBT) Concession for employers providing subsidised housing to its workforce. This is an essential tool in the recruitment and retention of quality staff and as such protects the economic growth of our Island. (sub. 75, p. 7)

... but some noted that there are impediments to taking up the housing concessions ...

While the FBT remote area concessions can be significant at the employee level, the associated complexity and compliance burden can limit their uptake (box 7.6). This is

especially true for partial concessions. Use of partial concessions can create an FBT liability, with the employer then required to register under the FBT system, submit returns and pay the tax. In contrast, employers who only provide exempt goods and services can remain outside the FBT reporting system. The partial concessions are also more complex to use than the exemption; for instance, employers must bear the cost of determining that an employee's housing arrangements qualify (and continue to qualify) under one of the s. 60 provisions in order to qualify for a partial concession. As discussed in box 7.1, this burden is not unique to remote area concessions but is an issue with the FBT system in general.

Box 7.6 Participant views on compliance burdens

RCCIWA (sub. 43, p. 1) said that the system of remote area tax concessions and payments is viewed as being 'extremely complex and inconsistent', and that there is a 'very high cost of compliance to the businesses regarding the legislative reporting requirements'. RCCIWA added that:

We also know that the burden of the costs of compliance (of all compliance) is having a detrimental impact on many small business owners and often is the reason why they chose to cease operating. (sub. 43, p. 3)

According to the City of Kalgoorlie-Boulder:

The current remote area FBT exemptions and concessions are complex and confusing, making it difficult for [small and medium enterprises] to access concessions ... The concessions can also be confusing and have limited benefits for employees ... 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 to claim. (sub. 52, p. 17)

PwC submitted that:

We consider that the reason for the low application is twofold. Firstly, the complexity of the current law has made it hard to comprehend for employers. This had led to employers not taking advantage of the concessions for fear of noncompliance, or to outsource the management of benefits to salary packaging bureaus (which may not be financially or administratively viable, particularly for smaller-scale taxpayers). Secondly, the rigid eligibility requirements have caused a number of clients to fail the remote area criteria as outlined in the *Fringe Benefits Tax Assessment Act 1986* (FBTAA). (sub. 55, p. 1)

AJ and PA McBride Ltd asserted that 'The Fringe Benefits Tax is ... very difficult to understand and calculate' (sub. 61, p. 3).

KPMG suggested it was difficult to determine remoteness for FBT purposes:

The current rules for identifying an eligible "remote area" depend on whether the location is within a certain radius of an urban centre with a certain population as per census data from 1981 ... The [ATO] website guidance may be of limited value for those who do not live in one of the named locations. (sub. 70, p. 4)

The MCA wrote that:

The current FBT remote area rules are complex and create significant compliance costs on employees and employers. Aligning the treatment of types of rental accommodation will remove this complexity and cost. (sub. 76, p. 3)

Western Australia's Department of Primary Industries and Regional Development stated that the FBT remote area concessions 'could be improved, for example by simplifying the concessions for housing and utilities' (sub. 82, p. 2).

This additional impost on employers means that, in many cases, the tax savings from the partial concessions do not outweigh the additional costs. Compliance costs for the partial concessions are likely to be a particular barrier for smaller employers (whether they are for-profit or not-for-profit businesses) that do not have accounting departments or scope to outsource to salary packaging firms. About 10 per cent of respondents to a questionnaire distributed to employers in the agriculture sector (appendix C) indicated that they did not claim FBT concessions on the housing they provide, or were unaware of them, despite being in the FBT remote area.

Submissions to this study, and the Commission's consultations in regional and remote Australia, also suggest that smaller businesses are less likely to use the exemption for employer-provided housing because they are less likely to own or head lease houses for employees. They may not have the financial resources to do so, and may also be concerned about the risk of employees damaging properties or leaving the company before the leases are up.

... and some participants raised concerns that the differential tax treatment of the concessions discourages employees from buying their own homes

The larger tax savings and lower compliance burdens associated with exemptions for employer-provided housing, relative to partial concessions on employee-sourced housing, have the effect of promoting employer-provided accommodation in remote areas. As the MCA noted:

... use of the 50 per cent concession is limited, and it is restrictive and administratively complex to apply.

The current FBT rules are skewed towards rental accommodation. There is little incentive in the current rules for employees to purchase a home in the local community. (sub. 76, p. 17)

The MCA also noted that among the housing assistance options covered by the partial concessions, rental subsidies involve minimal administrative costs for both employers and employees. This simplicity favours that form of assistance over others, such as providing a subsidy for interest incurred by an employee on a loan to purchase a home (sub. 76, p. 18).

Other participants also argued that the greater complexity and compliance costs associated with the FBT partial concessions discourage employees from buying their own homes in remote towns. For example, Isaac Regional Council said:

The operation of FBT concessions in their current form have the effect of the employer receiving the majority of the benefit and impacts on the ability of communities to attract and retain residents through commitment to home ownership by way of access to remote area incentives. (sub. 63, p. 1)

Although the size and simplicity of the exemption for employer-provided housing encourages this arrangement over employee-sourced rental or owner-occupied housing, the aggregate effect on towns across the FBT remote area will be fairly small in most cases. This is because only a low overall proportion of dwellings in FBT remote areas (about 5 per cent) are employer-provided (appendix C).

Nevertheless, in some towns with very high proportions of the labour force employed in industries that extensively use the exemption for employer-provided housing, there may be discernible impacts. These impacts are likely to be confined to a relatively small number of towns: for instance, towns heavily dependent on mining and related industries, or very small towns with a large contingent of government employees. Towns such as Port Hedland and Kununurra have relatively high proportions of dwellings that are rented — 79 per cent and 68 per cent respectively — compared with a national average of 31 per cent (as of the 2016 Census) (ABS 2017).

Temporary accommodation, transport and meals for FIFO workers

FIFO workers may qualify for FBT exemptions on transport to and from a work site, as well as temporary accommodation and meals during work shifts while they are there (section 7.1). Of these exemptions, only the exemption for employee transport to and from a work site is restricted to travel to designated FBT remote areas. Exemptions for temporary accommodation and meals during work shifts are provided under Division 7 of the FBTAA and apply to the whole of Australia.

How many FIFO workers are there?

While there are some data on FIFO arrangements used by particular industries in particular regions (such as mining in the Pilbara), aggregate data on FIFO workers are scarce. The Commission bridged this gap by estimating the number of long-distance commuters using data from the 2016 Census (appendix C). It found that about 60 000 people work in the FBT remote area but have their usual place of residence more than 350 km away. As a very large majority of those travelling more than 350 km to their workplace are likely to travel by air, this is a reasonable indicator of the number of FIFO (but not DIDO) workers in the FBT remote area.

The number of DIDO workers is harder to estimate. DIDO distances may be as short as 100 km (KPMG & Minerals Council of Australia 2013), which is a commuting distance that some people do daily. Counting all commuters who travel more than 100 km between home and their place of work would inflate the estimate of the number of DIDO workers. For this reason, the Commission's preferred estimate of the combined FIFO and DIDO workforce in the FBT remote area is the number of people who work in the FBT remote area and travel at least 250 km to their workplace — about 70 000 persons (appendix C).

FIFO arrangements are more common in the mining and construction industries, although they are also used in several service industries such as public safety, education and health (PC 2014). A large majority (about 86 per cent) of FIFO workers have their work destination in an ABS *remote* or *very remote* area.

Many remote communities are concerned that the FIFO arrangements discourage remote development

Long-distance commuting — and FIFO (excluding DIDO) arrangements in particular — elicit strong, but mixed, views among people in remote communities, source communities and industry.

Some in remote communities take a pessimistic view. John Bowler (2001, p. 3), the then State Member for Eyre, described FIFO arrangements as the ‘cancer of the bush’. Echoing this sentiment, although not the expression, the City of Kalgoorlie-Boulder claims that:

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. (sub. 52, p. 3)

These and other participants, including the Northern Territory Government (sub. 60) and Lex Fullarton (sub. 1), argue that the relevant FBT concessions encourage workers to use FIFO arrangements rather than living locally and supporting the economic viability of the area. If the purpose of FBT remote area concessions is to promote regional development, then the parts of the FBTAA that exempt FIFO workers from FBT — including FIFO provisions in living-away-from-home arrangements — could be thought to contradict this objective.

People from source communities and industry typically take a more positive view of FIFO arrangements. They argue that employers using FIFO workers, such as those in the mining industry, operate in remote and regional parts of Australia where it is difficult to source highly skilled labour (MCA, sub. 76, p. 9). Sometimes this labour may only be needed for a few years (such as during the construction phase of a mine) or on an intermittent basis (such as during maintenance shutdowns). Typically, businesses (particularly in mining) will only establish a residentially-based operation where there is already a community nearby with at least basic services and a degree of liveability. The MCA submitted that it and its members:

... strongly reject the claim that the transport and accommodation provided to employees travelling to remote areas are a benefit and should be subject to FBT. It is unreasonable for a company to expect an employee to relocate themselves and often an entire family for a project which may only last a few years. (sub. 76, p. 9)

Source communities are also generally supportive of FIFO arrangements. The City of Busselton in Western Australia (sub. 88) — which the ABS classifies as *inner regional* Australia — noted that it has obtained significant economic and social benefits from Rio Tinto’s FIFO program, which sources about 1000 workers from its community. Some regional local governments aspire for their towns to be significant source communities and view tax concessions as a way to help them achieve this end. For example, the City of Townsville argued that ‘consideration should be given to increasing the nominal value of FBT concessions for FIFO employers based in regional centres as opposed to capital cities’ (sub. 68, p. 10).

FBT arrangements likely have only a minor influence on decisions to operate a FIFO workforce

It is difficult to determine the extent to which FBT exemptions for FIFO workers affect any one employer's decision between employing a local or FIFO workforce — although, in general, it is unlikely that the concessions would be the main motivator. Other economic and social factors are at play. For example, in the experience of KPMG, the availability of FBT remote area concessions does not determine employer preferences for a locally-based or FIFO workforce. This is because:

From an employer's perspective, "fly-in, fly-out" or "FIFO" arrangements are relatively costly, risky and administratively burdensome, regardless of any FBT exemptions that may apply, when compared to sourcing a local workforce. Therefore an employer typically only uses FIFO arrangements in circumstances where the necessary skills are not available locally, and the employer's expectation is that those skilled employees would not be prepared to relocate their main residence to the remote area. (sub. 70, p. 3)

Some participants disagree with the argument that employers only use FIFO when there is no other option. They point to FIFO practices being used as an ongoing arrangement for worksites where there is scope for employees to reside in the local town. For example, the City of Kalgoorlie-Boulder (sub. 52, p. 7) noted that there are workers who stay in camps close to or within towns throughout the Goldfields, but they are generally not permitted to leave their accommodation sites. The result is that their time and money is not spent in remote communities.

The Commission has not been able to test these claims — but, even if true, such situations are likely to be in the minority. FIFO operations are often too far away from a town to make residing locally a feasible alternative. Again, authoritative data are hard to come by, but the Commission estimates that only about one in four FIFO workers have their worksite within 50 km of a town of 3500 people or more, rising to one in three within 100 km (appendix C). In Western Australia, where the majority of FIFO employees work, about one in three mines in the FBT remote area (47 mines) are estimated to be within 50 km of a town of at least 3500 people. Some of these mines would already be operating with a locally based workforce, so the number that are close to a town and use a FIFO workforce could be substantially less.

Even where a suitably sized town is located near business operations, the absence of FBT remote area concessions for FIFO workers would not guarantee that a locally-based workforce would replace FIFO workers. Many employers could still structure their workforce arrangements in a way that exempts FIFO travel and accommodation from FBT through other parts of the FBTAA (section 7.1). Those that cannot may still find it more profitable to absorb the increase in FBT and continue to operate a FIFO workforce.

The value of remote area concessions for FIFO workers

The Commission has not attempted to estimate tax savings associated with the FBT exemptions for employer-provided temporary housing, or with other remote area concessions aimed at FIFO workers. This is partly because the extent to which companies reduce their tax liability through the FBT exemptions for temporary housing under other parts of the FBTAA is unclear (section 7.1). It is also difficult to estimate the market value of FIFO accommodation. Given its location (often on remote mine sites) and purpose (as temporary rather than permanent accommodation), its value could be substantially different from the average of all employer-provided dwellings in the FBT remote area (appendix C).

Further, while the FBTAA includes a number of concessions on goods and services provided to FIFO and DIDO employees, only the exemption for employee travel to and from a worksite is restricted to travel to FBT remote areas (or off-shore remote locations, including oil rigs). The Treasury (2019b) estimates that this exemption is worth between \$10 million and \$100 million per year.

Other remote area concessions

There are three other FBT concessions available for employees in remote areas, namely:

- a 50 per cent concession on residential fuel
- an exemption for meals provided to primary production employees
- a 50 per cent concession on holiday transport.

In many cases, these goods and services may be provided together with housing or housing assistance as part of a more comprehensive package.

These concessions provide smaller tax savings ...

These three concessions will generally provide smaller tax savings to employees than the housing concessions; this reflects the lower value of the goods and services covered, the rate of the concessions, and the limitations on who can access them. The compliance costs associated with claiming these concessions can be quite large relative to the value of the goods and services being provided, which further limits their use.

- The **residential fuel** concession is a 50 per cent reduction in taxable value. It can only be used in conjunction with employer-provided housing or certain forms of assistance with employee-sourced housing, such as financial assistance with rent payments or loans from an employer. As a consequence, access is limited to a subset of the beneficiaries of these housing concessions. While residential fuel costs for employees in some remote locations could be especially high – for instance, due to high air conditioner use or a reliance on generators – in most cases, fuel costs will be substantially less than rent. Tax savings from the concession are estimated to be about \$2000 per year for a household,

with the Commission estimating an overall value of about \$20 million per year (appendix C). Respondents to the Commission's questionnaire indicated that low tax savings from the concession, the effort involved in claiming the concession, and a lack of awareness about the concession might partly explain its low utilisation.

- The **meals for primary production employees** exemption is restricted to primary production industries. The ATO defines primary production activities as plant or animal cultivation (or both), fishing or pearling (or both), and tree farming or felling (or both). Industries involved in these activities employ a substantial proportion of people in remote areas (appendix C). The exemption is not capped and includes meals purchased off-site, so in some cases individuals could incur substantial costs that would be eligible for the exemption. However, in other cases, the cost of included meals is likely to be more modest. The Treasury estimated that the overall value of this exemption was between \$10 to \$100 million in 2018-19, implying that average tax savings per employee are between \$60 and \$600 per year (appendix C). In the absence of this exemption, some of these meals might qualify for other concessional treatment under the FBTAA; for example, meals provided as a 'board fringe benefit' (where employees are provided with at least two meals a day in conjunction with accommodation, these meals are typically valued at \$2 per meal), meals provided for consumption on business premises constituting an exempt property benefit, or exemptions under 'minor benefits' for meals provided on an infrequent and irregular basis valued at less than \$300 per meal.
- The **holiday transport** concession is limited in a number of ways. It is a partial concession, rather than a full exemption; it is capped at the cost equivalent of transport to particular locations; and it is only available in industries where its provision is customary. As a consequence, the number of concession recipients and the average tax savings from the concession are likely to be small (appendix C). The Treasury (2019b) estimated that the value of this concession was between \$0 and \$10 million in 2018-19.

... and have only a minor influence on decisions to live remotely

As with remote housing, the incentives to live and work in remote areas can be affected by the use of the other remote area concessions on goods and services provided to employees. Some employers suggest that the concessions may help them to attract and retain staff; for example, describing the holiday transport concession, the Central Land Council submitted that:

The allowance, as per FBT rules, is paid at a benchmarked return economy airfare to Adelaide (currently \$996). Airfares to/from Alice Springs are extraordinarily high and are currently subject to a parliamentary inquiry. It is hypothesised that this remote concession is highly valued and a key aspect to attracting and retaining staff. (sub. 35, p. 4)

Nevertheless, the aggregate effect of these measures on decisions to live and work in remote areas is likely to be relatively minor. The concessions are relatively little-used, the potential tax savings are low, and many other factors influence both employers' hiring decisions and employees' willingness to relocate to remote areas (PC 2014). These additional concessions

are generally of a smaller magnitude than the housing arrangements, although they could potentially all be used for an employee, in which case their cumulative effect could be more substantial.

Concerns about the complexity of using these concessions

Many of the concerns raised by participants about the complexity and compliance burdens of the remote area concessions in general (box 7.6) also apply to these other concessions. However, some participants noted specific issues with the concessions on residential fuel and meals for primary production employees. For example, on the topic of residential fuel, AJ & PA McBride Ltd submitted that:

It is difficult to determine the benefit value of electricity because the majority of electricity meters that supply houses also supply electricity to business assets such as electric fences; pumps; offices and sheds. (sub. 61, p. 5)

Hamilton Island Enterprises also observed that:

The FBT concession for remote area residential fuel, specifically electricity and gas, is of little benefit and is unworkable in practice given the ATO's guidance for application of the concession. Accordingly, it is submitted the wording relating to the concession be amended to reflect the intention of the concession, vis 50% of the market value of the residential fuel provided is tax exempt. (sub. 18, p. 2)

AJ & PA McBride Ltd also noted issues with the definition used for the meal exemption, which is restricted to meals that are ready for consumption, saying that this raises several questions:

Is a cooked breakfast FBT-Free, but cereal is taxable? Is toast FBT free, but only if the cook presses down the lever on the toaster? (sub. 61, p. 5)

In light of these complexities and the lack of available data on the use and value of the concessions, the Commission asks for further information and responses to its estimates.

INFORMATION REQUEST 2

The Commission invites feedback on its estimates of the utilisation of the FBT concessions. Are the Commission's assumptions plausible? If not, what alternative assumptions should apply? Are there other data that could assist in gauging the use of FBT concessions?

DRAFT FINDING 7.1

The use and economic effects of fringe benefits tax (FBT) remote area concessions vary.

- The exemption for employer-provided housing (used as a usual place of residence) can provide significant value at the employee level, particularly for higher-income employees, and could cost as much as \$430 million per year in forgone FBT revenue nationally. Usage is concentrated in certain areas — such as the Pilbara in Western Australia, and the Central Highlands and Bowen Basin in Queensland — and in industries such as mining, agriculture, and public services (including hospitals, police, and local government).
- The partial concessions on employee-sourced housing are narrowly used. The 50 per cent concession is much less generous than the full exemption on employer-provided housing, and the compliance burdens are higher.
- Use of other FBT remote area concessions (on residential fuel, meals for primary production employees and holiday transport) is minimal, in part because they provide limited tax savings and are overly complex with high compliance costs.
- FBT concessions for fly-in fly-out workers, while widely used, are likely to have only a minor influence on decisions to maintain a fly-in fly-out workforce.

7.3 Are FBT remote area concessions effective?

Given the differing views on the objectives of FBT remote area concessions, it is unsurprising that some participants are dissatisfied with how they operate. For those who see the role of the concessions as promoting regional development — both to exploit economic opportunities in remote areas and to deliver services to remote area communities — the concessions are too difficult to access (particularly for small business) and fail at encouraging people to live and invest in remote areas. For those who see concessions as a way of correcting for inequities in the FBT regime, there is staunch opposition to any tightening of current concessions, especially for FIFO. Many argued instead for making the remote area concessions more financially attractive and accessible — for instance, by changing partial concessions to exemptions.

The concessions are poorly targeted to regional development goals

While many participants expressed the view that the concessions were important for regional development, the FBT concessions are poorly designed for that purpose.

Businesses typically have commercial incentives to invest in projects if the expected returns exceed the costs and risks. There is no basis for governments to subsidise this process by offering FBT concessions for remote areas. Indeed, doing so has the potential to shift resources away from projects that would have greater economic returns for Australia overall.

State and Territory governments carry primary responsibility for regional development, and each jurisdiction will have its own challenges and priorities. A broadly-applied tax concession is unlikely to be a cost-effective approach to incentivise employees or employers to move to or invest in specific regions in a way that aligns with these priorities. Furthermore, the boundaries (which encompass 97 per cent of Australia's landmass) are too broad to target regional development. In fact, they might actually counteract regional development objectives; some participants stated that it was better to have targeted policy settings that encourage investment in regional hubs to ensure access to services such as health, and capture economies of scale, than to locate services in smaller remote towns.

Concessions to address inequities in the FBT regime are justified ...

The most compelling argument for FBT remote area concessions is that they address inequities inherent in the FBT regime. In some cases, employers have operational requirements to provide goods and services (such as housing) to employees, and it would be inequitable to apply the full rate of the FBT. The full rate discourages the provision of remuneration in kind, but where this is unavoidable it creates a larger tax obligation (in most cases) than if the employee was paid the equivalent in wages.

FBT exemptions for FIFO or DIDO arrangements are warranted

Accommodation, transport and meals for FIFO workers are typically operational requirements, just as when non-FIFO employees are occasionally required to work away from their home base. FIFO employment arrangements are often necessary due to remoteness (where there are no nearby labour sources), or for short-term projects (such as construction projects) where it would not be feasible for employees to change their permanent residence. In these cases, exemptions from FBT are appropriate.

- It is unlikely that employer-provided temporary accommodation privately benefits FIFO workers (box 7.7). The workers are unlikely to be left in a better financial position, as they must still incur the costs of owning or renting a usual place of residence. For the most part, intermittently living away from home does not change these costs.
- Likewise, transport between a worker's usual place of residence and a remote worksite does not privately benefit FIFO workers (box 7.7). While transport to and from work is usually considered to be a private expense, there is a difference between the long-distance commuting covered under the remote area transport exemption and usual day-to-day travel to and from work.
- Meals that a worker receives during a shift do privately benefit the employee, and so could be considered a form of non-wage income. Whether or not they should be subject to FBT depends on other factors, such as compliance costs. In the Commission's view, these compliance costs are too high to justify removing the current exemption or changing it to a partial concession.

Box 7.7 Aligning FBT with the nature of goods and services provided

Equitable FBT treatment, including the rate of any concession, depends on the likelihood that there is an operational reason for an employer to provide the good or service and on whether it privately benefits the employee.

- Where there is an operational reason to provide a good or service to an employee, but that good or service does not privately benefit the employee, there is a strong basis for it to be exempt from FBT. Exemptions could also extend to cases where the private benefit (and forgone tax revenue) is sufficiently small relative to other factors, such as the compliance burden that would be imposed by subjecting it to FBT.
- Where there is an operational reason to provide a good or service that also privately benefits the employee, a partial concession may be warranted. While the FBT regime generally penalises the provision of goods and services to discourage non-wage remuneration, a full exemption achieves the opposite. A partial concession can achieve a better balance, reducing incentives to provide goods or services instead of wage income without overly penalising employers in instances where these goods or services must be provided.
- Where there is no operational reason to provide a particular good or service — where it is not required in order to perform employment duties, and can be readily purchased by the employee themselves — there is no case for an FBT concession, and employees should purchase these goods and services themselves from their after-tax income.

Removing the FBT remote area concessions for FIFO workers would, at the margin, mean that some workers would choose to relocate to remote areas. However, there would likely be few such workers (section 7.2), and so this would be an expensive and blunt way to foster regional development. Should governments wish to encourage locally-based work practices, there are other, more targeted tools available — such as the agreements that governments sign with mining companies at the outset of major projects.

... but current arrangements go well beyond ‘equitable tax treatment’

Exemptions for employer housing are overly generous

Full exemptions for employer-provided housing are available across much of Australia. Although there are cases (such as remote farms) where the provision of housing warrants concessional treatment to avoid punitive taxation, the size and scope of current exemptions are too expansive for this purpose.

The general principle in individual income tax law is that taxpayers are entitled to claim deductions for expenses (that are not reimbursed by their employers) incurred wholly for the purpose of earning an income, as well as for the work-related portion of those expenses that are both work-related and private in nature (box 7.8).

Box 7.8 **When are employee expenses private in nature?**

People incur a range of expenses in their everyday lives. These can be:

- private in nature (for example, expenditure on recreation and consumer goods)
- incurred for the purpose of earning an income (for example, a tradesperson buying tools)
- both (for example, the maintenance costs of a car used for both work and private purposes).

The distinction between a work-related expense and an expense that is private in nature has evolved over time through case law. It is not always clear cut and can turn on the particular circumstances of a case. In the case of accommodation expenses, a key consideration is whether an expense is dictated by work or by a personal choice about where to reside.

In *Federal Commissioner of Taxation v Charlton* (1984) 71 FLR 107, a pathologist rented a flat in Bendigo while maintaining a permanent family home in Melbourne so that he could conduct autopsies for the local coroner in Bendigo. Justice Crockett of the Supreme Court of Victoria held that the rental expenditure was dictated not by his work but by his choice to live in Melbourne:

The taxpayer's election to live in Melbourne and not in Bendigo meant that the rental expended on the flat in order to enable him to secure accommodation in which to recuperate from the rigours of travel and the nature of his work was an expenditure dictated not by his work but by private considerations.

In *The Roads and Traffic Authority of New South Wales v Commissioner of Taxation* (1993) 26 ATR 76, Justice Hill of the Federal Court also emphasised that a key distinction between work-related and private accommodation expenses is whether the expense arises as a result of the employee's choice of where to live:

An employee who had no private home and was employed indefinitely to work at a particular site and did in fact work for the whole of his employment at that site, might be said to have chosen to live at the site so that the cost of his accommodation there would be private. The evidence in the present case however makes that a highly unlikely case. On the evidence, employees are sent to work away from their home generally for short periods of time and are told that they may be required to move from place to place. They are not told that their employment in a particular place is indefinite. In the circumstances, there seems little scope for an inference that living at a camp or caravan, as the case may be, is a choice made by the employee.

In the case of transport costs, traveling between two workplaces (for example, traveling between branch offices) is often considered a work-related expense. However, the cost of travelling from home to work is usually not deductible as it is generally considered to be of a private nature (even though it would not have been incurred but for the need to get to work) (*Lunney v Commissioner of Taxation of the Commonwealth of Australia*; *Hayley v Commissioner of Taxation of the Commonwealth of Australia* (1958) 100 CLR 478).

Source: Woellner et al. (2015).

A full exemption for employer-provided housing is overly generous, given that the provision of housing for use as an employee's usual place of residence benefits the employee (box 7.7). Most people have to pay the costs associated with their usual place of residence from after-tax income (box 7.8), but using the exemption provides eligible employees with significant tax savings: the portion of their remuneration provided as housing is taxed at 0 per cent rather than their marginal individual income tax rate. This advantage holds even when there is no alternative to employer-owned housing, or when an employee chooses to retain their previous residence.

Additionally, current eligibility rules mean that the exemption applies in areas where housing is available on the private market — and, because the exemption is not tax-neutral, it can incentivise provision of housing in lieu of wages. Consequently, high-income individuals could in principle use the exemption for expensive properties in less remote places like Darwin, Townsville, Cairns or Byron Bay.

Two particularly problematic aspects of current eligibility rules are provisions that allow employers to claim concessions on employer-provided housing merely because it is ‘customary’, or in less remote areas where they are ‘certain regional employers’.

- The ‘customary’ rule allows some employers to use the concession in locations where there is sufficient alternative accommodation available — that is, where it is not necessary for the employer to provide the housing for operational reasons.
- The rationale for the ‘certain regional employers’ provision is not explicit. It aligns more with regional development and service provision than with the objective of equitable tax treatment. Given that the additional areas are close to more populous towns, the need to provide accommodation for operational reasons is less credible.

Concessions on employee-sourced housing do not improve tax equity

The partial concessions applicable to employee-sourced housing do not satisfy the condition that there is an operational requirement for employers to provide housing assistance. They are premised on employees securing their own housing, either in the private rental market or by purchasing a property (even through an employer). However, if employees are able to secure their own residential housing, then the assistance provided must be directly substitutable with wage income. Access to these concessions is also inequitable because they are only available to employers in industries where it is considered customary to provide housing assistance.

Overall, these concessions do not improve the equity of tax treatment.

Remote area concessions for other goods or services are also often overly generous or complex

Where there is an existing private market for utilities, employees can purchase residential fuel themselves and so there is no operational requirement for the employer to provide it. However, in instances where the employer must be the de facto utility provider — for instance, where there are no alternatives, or where the utilities to an employer-owned house are not separately metered — then there is an operational requirement to provide fuel and an FBT concession may be warranted.

Similarly, for holiday transport, there is no impediment to employees purchasing services such as transport, accommodation and meals themselves in order to take a holiday. The great inequity of this concession is that it allows holidays to be partly funded by other taxpayers,

which is an inappropriate way to spend taxpayer money. As there is no operational requirement for employers to provide holiday transport, the case for this concession is weak.

On the other hand, while meals for primary production employees provide clear private benefits, there may also be operational reasons to cater to employees in remote areas due to a lack of alternative meal options. In these cases, some form of FBT concession is warranted to provide equitable tax treatment. A full exemption would be warranted if the compliance burdens of a partial concession could not be justified, and where the private benefits were relatively modest.

DRAFT FINDING 7.2

Fringe benefits tax remote area concessions help to address inequities inherent in the FBT regime, but they are not fit for purpose. The current concessions are overly generous and complex, thereby creating other inequities.

8 Improving the FBT remote area concessions

Key points

- The most compelling argument for fringe benefits tax (FBT) remote area concessions is that they address inequities inherent in the FBT regime. In some cases, employers have operational reasons to provide goods and services (such as housing) to employees, and it would be inequitable to apply the full rate of the FBT. Nevertheless, there are ways to better target the concessions.
- The Government should revert the exemption for employer-provided housing (as usual place of residence) to a partial concession (as it was prior to 2000) and tighten eligibility rules.
 - The change to a partial concession (a 50 per cent reduction in taxable value) would reduce incentives to use employer-provided housing in cases where it is not an operational requirement, without penalising employers in cases where it is (with rare exceptions).
 - Removing employers' ability to access concessions on employer-provided housing via the 'customary' rule, or in additional areas under the 'certain regional employers' provision, would help limit the use of concessions to cases where there is an operational requirement for the employer to provide housing.
- The existing 50 per cent concessions on other forms of housing assistance (such as rent or mortgage assistance) provided to employees residing in remote areas should be removed.
 - These partial concessions do not satisfy the condition that there is an operational requirement for employers to provide the assistance. They are premised on employees securing housing themselves and the employers reimbursing them for some of the cost of this housing; if employees are able to secure housing, any financial assistance is substitutable with wage income.
- The concessions on meals for primary production employees and residential fuel should be retained, but eligibility should be tightened to include only those cases where there is an operational requirement to provide meals or fuel.
- The partial concession on holiday transport should be removed. Holiday transport directly benefits employees, but there is no operational requirement to provide it, so it is inequitable for it to be partly funded by taxpayers.
- The changes to FBT housing concessions are likely to generate a small net increase in tax revenue. This would be offset by any spending increase required to maintain service delivery.
- The boundaries on FBT remote area concessions (if retained) should be updated to reflect current populations and decisions made about the future of the zone tax offset. This draft report invites feedback on the relative merits of different boundary options.

The most compelling argument for FBT remote area concessions is that they address inequities inherent in the FBT regime (chapter 7). In some cases, employers have operational

reasons to provide goods and services (such as housing) to employees, and it would be inequitable to apply the full rate of the FBT. Nevertheless, there are ways to better target the concessions.

This chapter explores options for improving the operation of FBT remote area concessions to address inequities inherent in the FBT regime. In particular, the chapter includes:

- the Commission’s approach to assessing alternative options for designing FBT remote area concessions (section 8.1)
- options for improving concessions for remote area housing (as an employee’s usual place of residence) (section 8.2)
- options for improving other concessions, namely those on residential fuel, meals for primary production employees, and holiday transport (section 8.3)
- options for changing the FBT remote area boundaries, which apply to all concessions (section 8.4)
- a summary of proposed changes and a request for further information to understand how these changes would play out in specific remote areas (section 8.5).

8.1 Approach to assessing alternative options

Balancing precision and simplicity

Any redesign of the FBT remote area concessions needs to balance two considerations: improving tax neutrality between different forms of remuneration, and minimising compliance and administration costs.

Tax neutrality means that the tax system does not incentivise taxpayers to choose one form of remuneration over another. For instance, if the marginal rate of tax was the same on both salary and wages (hereafter, ‘wages’) and remuneration provided in the form of goods and services, employers would no longer have an incentive to provide goods or services in lieu of wages in an effort to lower tax payable.

Achieving tax neutrality between different forms of employee remuneration in remote areas would improve the integrity of the tax system. It would satisfy the principle of horizontal equity in taxation, as people receiving similar overall levels of remuneration would pay similar amounts of tax. It would also expand the range of consumption possibilities, as employees would be more likely to be paid in wages — which they could spend on goods and services of their choosing — rather than on specific goods and services that happened to attract concessions.

However, scope for achieving tax neutrality under the current FBT regime is limited. The FBT system is designed so that fringe benefits are taxed at the top income tax rate, rather than at the employee’s marginal income tax rate. This means that the provision of fringe

benefits to lower income earners is financially unattractive relative to paying wages. Although partial concessions reduce the amount of FBT payable, the effective FBT rate is still fixed and independent of an employee's marginal income tax rate. For example, a 50 per cent reduction in taxable value results in an effective FBT rate of 30.7 per cent.⁶⁷ In most circumstances, the FBT rates applicable to employer-provided goods and services will differ from employees' tax rates on additional wages, resulting in an incentive to favour one form of remuneration over the other.

Broader reforms to the operation of FBT and other components of the income tax system — for instance, taxing fringe benefits in the hands of employees as suggested by the Henry Review (2009) — would address neutrality concerns and fundamentally alter the case for specific concessions. In the absence of broader changes to FBT, there is a need to better target access to the concessions. This involves examining the nature of each type of good or service provided by employers, determining whether a concession is warranted, and deciding what form any concession should take. (Box 7.7 in chapter 7 outlines principles for determining the need for FBT concessions, based on whether there is an operational reason for an employer to provide the good or service and whether it privately benefits the employee.)

The other important consideration is that compliance and administrative costs should be kept to a minimum. Exemptions for less expensive goods and services may be justified on the grounds of simplicity, because the compliance burden associated with a partial concession would be disproportionate to the tax revenue generated. It is also worth considering whether the inequities created by the FBT system are important enough to warrant specific concessions at all, given that such concessions add to the complexity of administering the tax and transfer system and their total cost to taxpayers is not transparent.

Better targeting the concessions

To make the FBT treatment of goods and services more equitable (where employers have operational reasons to provide them), the Government could change two main features of the concessions.

1. The rate of the concession. There may be no concession, a partial concession (such as a 50 per cent reduction in the taxable value), or a full exemption. The rate of the concession should depend on the likelihood that there is an operational reason for an employer to provide a good or service, and on whether it also privately benefits the employee.
2. The eligibility rules. These include geographical boundaries (which apply to all remote area concessions, and are currently defined by distance from an 'eligible urban area') and

⁶⁷ The effective tax rate is defined as the FBT payable by the employer divided by the sum of the value of the good or service provided and the FBT payable by the employer. For each dollar of good or service provided that attracts the full rate of FBT, 89 cents of FBT is payable (for GST exempt goods). This equates to an FBT rate of 47 per cent ($0.89/(1+0.89)$). Where there is a partial concession that reduces the taxable value by 50 per cent, the FBT rate is now equivalent to 30.7 per cent ($0.445/(1+0.445)$).

conditions for accessing specific remote area concessions. Eligibility rules can make it harder to use concessions in circumstances for which they were not intended; well-designed eligibility rules are particularly important where concessions incentivise the provision of goods and services instead of wages.

The following sections present the Commission's analysis and draft recommendations on ways to better target the concessions to achieve more equitable tax treatment.

8.2 Housing as usual place of residence

Employer-provided housing

The exemption for employer-provided housing is available across much of Australia, and accounts for most of the cost of the FBT remote area concessions. Although there are cases where provision of housing is an operational requirement and therefore warrants concessional treatment in order to avoid punitive tax treatment, the size and scope of the current exemption is excessive for this task (chapter 7).

A full exemption for employer-provided housing is overly generous given that the provision of housing for use as an employee's usual place of residence benefits the employee. Most people have to pay the costs associated with their usual place of residence from after-tax income, but using the exemption provides eligible employees with significant tax savings: the portion of their remuneration provided as housing is taxed at 0 per cent rather than at their marginal individual income tax rate. This advantage holds even where there is no alternative to employer-owned housing, or where an employee chooses to retain their previous residence.

Additionally, current eligibility rules mean that the exemption applies in areas where housing is available on the private market and, because the exemption is not tax-neutral, it can incentivise provision of housing in lieu of wages. For example, high-income individuals could in principle use the exemption for very expensive properties in less remote places like Cairns or Byron Bay. Figure 8.1 demonstrates that the exemption could create significant tax savings in some cases. (Even partial concessions can still provide large tax savings where incomes and housing costs are high.)

As an overly generous concession with loose eligibility rules, the exemption results in excessive forgone tax revenue for the Australian Government and places a disproportionate burden on other taxpayers.



Revert from a full exemption to a partial concession

The current exemption for employer-provided housing (as usual place of residence) should be changed to a partial concession. That is, the taxable value of employer-provided housing in the FBT remote area should only be reduced by 50 per cent. This would see the concession

revert to its pre-2000 rate (chapter 7, box 7.3 discusses the evolution of remote area concessions).

Figure 8.1 The concessions offer significant tax savings where housing costs are high^{a,b,c,d}

Compared with the employee paying for housing from their after-tax income

	<i>Nahid's employer is offering a salary package of \$250k p.a</i> <i>Housing costs are \$500/wk (\$26k p.a)</i>		<i>Lina's employer is offering a salary package of \$250k p.a</i> <i>Housing costs are \$1000/wk (\$52k p.a)</i>
Tax savings from FBT concessions		Tax savings from FBT concessions	
If full exemption: \$12 220		If full exemption: \$24 440	
If partial (50%) concession: \$6 110		If partial (50%) concession: \$11 815	

^a For employer-owned property, 'housing costs' would be the equivalent market rent. ^b In these examples, the partial concession (a 50 per cent reduction in taxable value) is applied to the total housing costs. Where employers reimburse less than the full amount of an employee's gross rent expenses, the reduction in taxable value can be larger (up to 100 per cent). ^c For simplicity, the following have been excluded: the effect on the employer's superannuation guarantee liability, other costs associated with labour (for example, payroll taxes), and tax offsets and deductions. ^d Estimates are based on 2017-18 income tax rates.

Source: Commission estimates.

This change would bring the concession closer to tax neutrality, while generally not penalising employers providing housing. For employees on incomes of more than \$37 000 per year, who make up about 85 per cent of those who receive employer-provided housing in the FBT remote area (table 8.1), a 50 per cent concession would still provide a cost saving compared with paying for accommodation from after-tax income. But the smaller savings would reduce incentives to use the concession in cases where there is not an operational requirement — reducing both the cost of the concession in terms of forgone tax revenue and the inequity between those who use the concession and those who cannot.

Where employees are on incomes of less than \$37 000 per year, which is true of about 15 per cent of those who receive employer-provided housing (table 8.1), providing goods or services subject to a 50 per cent concession may be more costly to the employer than paying the additional wages needed for the employee to pay for housing from after-tax income.

In implementing this change, it is important to consider whether the grossed-up value of employer-provided housing that qualifies for a partial concession should be considered a reportable or excluded benefit. Making this value reportable would mean that it would be

taken into account in determining an employee's eligibility, or liability, for other concessions or tax obligations.⁶⁸

Table 8.1 Estimated income tax brackets of persons in employer-provided housing^{a,b,c}

<i>Income range</i>	<i>Marginal rate, including Medicare levy (per cent)^d</i>	<i>Proportion of people receiving employer-provided housing (per cent)</i>
0 – \$18,200	0	3
\$18,201 – \$37,000	21	13
\$37,001 – \$90,000	34.5	49
\$90,001 – \$180,000	39	30
\$180,001 and over	47	5

^a Housing is assumed to be provided by the employer of the household reference person in the 2016 Census. Where there were multiple households in a single dwelling (which was true in less than one per cent of cases), the reference person was chosen at random. ^b Weekly salaries are based on the total personal income the reference person usually receives. ^c Income was assumed to be uniformly distributed within each income range. For incomes of \$156 000 or more, half were assumed to earn less than \$180 000 and half were assumed to earn above this amount. ^d The Medicare levy adds a further 2 per cent to the marginal income tax rate. However, there is a Medicare reduction for low income earners so that it does not apply where an individual's income is in the lowest income range. Individuals with taxable income at the lower end of the second income range may also pay no Medicare levy or a reduced rate.

Source: Commission calculations based on ABS (*Census of Population and Housing Microdata*, 2016, cat. no. 2037.0.30.001).

Eligibility rules should be tightened

Changing from a full exemption to a partial concession would significantly reduce the incentive to use the concession to lower tax payable, although it would not eliminate it. Amending the eligibility rules to focus use of the concession on cases where there is an operational requirement would further limit scope for the proposed partial concession to be used in tax reduction strategies, and improve the integrity of the income tax system.

Existing rules that require employers to self-assess whether the provision of housing is 'necessary' (s. 58ZC(2)(b) of the *Fringe Benefits Tax Assessment Act 1986* (Cth) (FBTAA)) create confusion and uncertainty about eligibility (PwC, sub. 55, p. 1; KPMG, sub. 70, p. 4). This uncertainty means that some employers may claim the concessions in circumstances for which they were not intended; meanwhile, others may not claim the concessions even when they have a legitimate case, for fear of making a mistake.

⁶⁸ These include: the Medicare levy surcharge, family tax benefit, child care benefit, the parental income test for youth allowance, deductions for personal superannuation contributions, the tax offset for eligible spouse superannuation contributions, superannuation co-contributions, child support obligations, higher education loan program repayments, and the mature age worker tax offset.

The ‘customary’ rule is the provision that causes the most confusion, and entails the highest risk of employers claiming the concessions in circumstances for which they were not intended. This provision allows some employers to use the concession in locations where there is sufficient alternative accommodation available; however, in these cases, there is no operational requirement for the employer to provide the housing. The provision should be removed.

Accordingly, it should only be possible to satisfy the ‘necessary’ criterion by meeting one of the two remaining legislative tests — either that there is insufficient suitable alternative accommodation, *or* that there are other operational reasons for the employer to provide accommodation.

Eligibility should be tightened in the additional areas where ‘certain regional employers’ can access the existing exemption. The rationale for this provision is not explicit, but aligns more with regional development and the provision of services than with equitable tax treatment. However, given that the additional areas are more populous towns, the need to provide accommodation for operational reasons is less credible. Provisions in the FBTAA that extend the concession to ‘certain regional employers’ in additional areas should be removed.

DRAFT RECOMMENDATION 8.1 TIGHTEN TAX TREATMENT OF EMPLOYER-PROVIDED HOUSING

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to change the tax treatment of employer-provided housing. Specifically, it should:

- revert the exemption for employer-provided housing (section 58ZC) to a 50 per cent concession (as it was prior to 2000)
- remove the provision that enables employers to claim the concession because it is ‘customary’ to provide housing (section 58ZC(2)(d)(iii))
- remove the provision that extends the concession to additional areas for ‘certain regional employers’ (section 140(1A)).

INFORMATION REQUEST 3

Should the revised remote area concessions be considered ‘reportable’ or ‘excluded’ benefits? Are there additional compliance burdens from allocating these benefits to individual employees that justify excluding them?

Are there any other factors that should be considered in implementing these changes?

These changes would have a number of effects

Changing the current remote area housing exemption to a 50 per cent concession could be expected to have three main consequences:

- there would be some increase in the compliance burden of using the concession
- tax savings for individuals would decrease, which in aggregate would lead to an increase in total tax revenue
- there would be some changes in the use of the concessions, the effects of which might be concentrated in areas where the concessions are more heavily used.

Compliance costs would increase

Changing from an exemption to a partial concession would increase compliance burdens. It might require employers to submit FBT returns, which they could formerly have avoided when using exemptions. Determining the value of housing provided to employees could also be a challenge, especially in very remote areas with thin housing markets, although such cases are likely to be rare. Much of the accommodation in very remote areas is temporary accommodation (which would remain exempt from FBT), and there are ways to value housing in the absence of a market — such as by applying a risk-adjusted rate of return to the asset's value. Additional guidance from the ATO on valuation approaches could assist in these instances.

These additional compliance burdens would likely have a disproportionate effect on smaller employers — some of whom might only provide housing to a single employee. That said, it is worth noting that employers providing housing to employees are disproportionately likely to be larger businesses that already have FBT reporting systems in place.

On balance, the Commission considers that the additional compliance costs are justified by the benefits of more equitable tax treatment and a broader improvement in the integrity of the income tax system. The tax savings conferred by moving to a 50 per cent concession would still be likely to exceed the compliance costs; however, even in extreme cases where the compliance costs outweighed the tax savings, employers could offer higher wages and then rent accommodation to employees at market value instead of providing it as remuneration in-kind.

The Commission invites further information on the compliance burdens that could arise from this change and how these burdens might be minimised. (For example, is there scope for the ATO to provide additional guidance or assistance to employers, particularly small employers?). The Board of Taxation should maintain its focus on identifying ways to reduce the compliance burden on all organisations reporting FBT payments.

INFORMATION REQUEST 4

The Commission invites further information on the compliance burdens that could arise from this change in the FBT treatment of employer-provided housing, and on what could be done to reduce these burdens while addressing equity concerns.

Individual tax savings would decrease — reducing use of the concession and increasing aggregate tax revenue

Shifting from a full exemption to a 50 per cent concession would substantially reduce tax savings at the individual level, although the reduction in tax savings would vary with employee incomes. For the vast majority of individuals (with income above \$37 000), the partial concession would still provide tax savings relative to a no-concession scenario.

A simple ‘morning after’ analysis shows the likely immediate impact of changing to a partial concession. Assuming no change in the provision of employer-provided housing, the shift to a 50 per cent concession could raise about \$105–\$215 million in FBT (appendix C).

In practice, employer behaviour would change. Some employers would continue to provide housing, and would pay FBT on that housing, but might reduce employee wages in order to recoup some of the extra tax payments; this would lower income tax receipts. The economic incidence of the increased FBT burden — the division of the burden between employees and employers — would depend on the relative supply and demand for labour in the industry and geographical area.

Other employers might cease to provide housing and instead increase employee wages. This could be an attractive option where a private housing market exists, or where the FBT concession results in a tax disadvantage for employees on incomes below \$37 000. Increasing employee wages would increase income tax; this increase would be shared between employers, in the form of a higher wage bill, and employees, in the form of an increase in after-tax income lower than the value of the housing they previously received. Again, the division of the increased income tax burden between employees and employers would depend on the relative supply and demand for labour in the industry and geographical area.

Removing the additional areas for ‘certain regional employers’ would reduce the number of eligible claimants. The Commission has estimated that approximately 1300 employer-provided dwellings in these additional areas could currently qualify for the existing housing exemption (appendix C). Under the proposed changes, these dwellings would no longer qualify for the remote area concession. (Broader changes to the remote area boundaries would also affect use of the concession; section 8.4.)

Removing the ‘customary’ criterion should reduce use of the concession in areas where there are plentiful alternative accommodation options. However, the extent to which employers have relied on the ‘customary’ criterion is uncertain, and so it is not clear what effect this

would have in practice. In any event, even in industries where housing provision is customary, shortages of alternative housing are put forward as the underlying reason for use of the concessions:

... the shortage of housing in remote Western Australia in close proximity to projects has meant it was necessary and customary for the resources sector to provide housing to employees. (Chamber of Minerals and Energy of Western Australia, sub. 95, p. 10)

Accordingly, any reduction in use as a result of the withdrawal of the ‘customary’ criterion is likely to be limited; use of the concession is more likely to decrease in larger population centres within the remote area boundaries. At the same time, this change would eliminate an historical anomaly which could create an economic distortion between industries in remote areas.

Employment and regional effects are uncertain

The extent to which use of the concessions will fall as a result of these changes is unclear — except in the additional areas for certain regional employers, where 1300 dwellings would no longer be eligible for the exemption. However, the decline in use could be significant, particularly in locations with private housing markets and among employers who can feasibly sell their housing stock (for instance, where housing is separate from business premises).

The increase in tax burden from moving to a partial concession, and the restrictions on access from tightening the eligibility criteria, may reduce employment relative to what it would have been. For example, in referring to the FBT concessions on fly-in fly-out (FIFO) arrangements, the Chamber of Minerals and Energy of Western Australia submitted that:

Removing exemptions or reducing the value of FBT concessions ... is likely to have material financial consequences on current projects and FID of future investments. With a shift to export-led growth, large cost increases arising from changes in FBT arrangements may result in job impacts, decreased production outputs and increased likelihood of mines entering care and maintenance. Although this may increase taxation revenue in the interim (e.g. FBT and payroll tax), the overall outcome would be damaging for the regions in where mines operate. The State and Australian economy would also receive reduced royalties and other taxes that would have been otherwise available across the life of the mine. (sub. 95, p. 9)

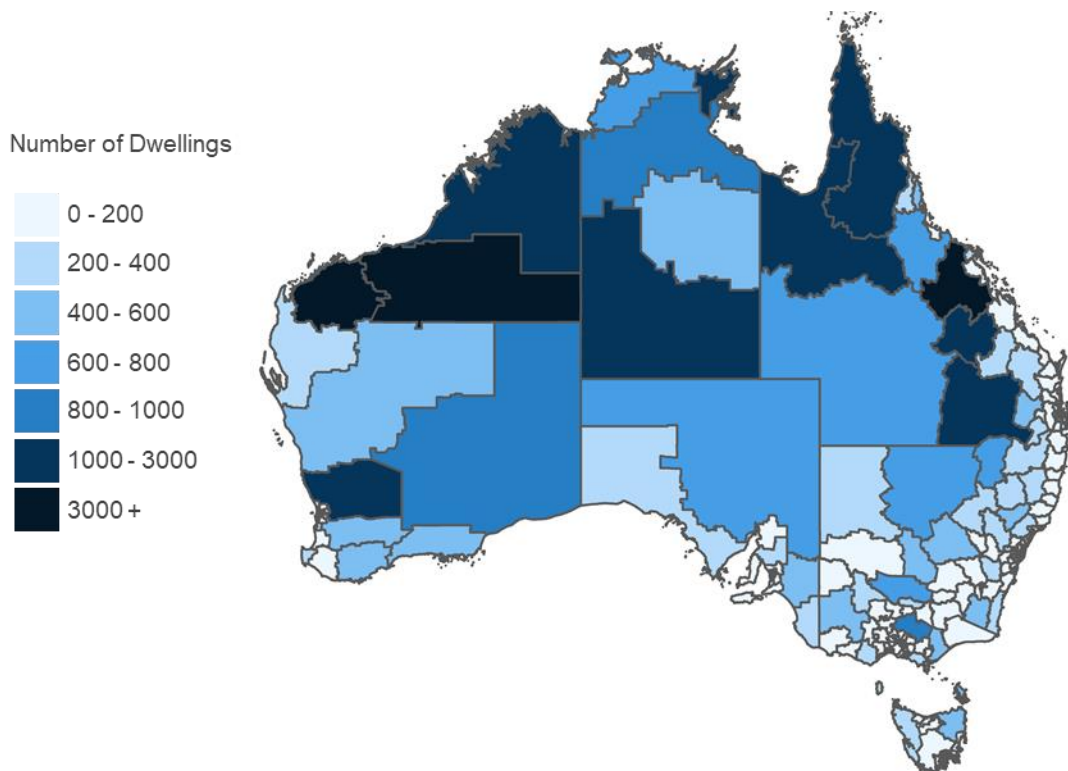
Such reasoning also applies to removing the FBT exemption for housing (as usual place of residence). Any decline in economic activity associated with the change from a full exemption to a partial concession may have knock-on effects on some remote areas.

But these effects are generally likely to be small and dispersed. In areas where employer-provided housing is most prevalent — such as the Pilbara and Kimberley regions of Western Australia, and the Central Highlands and Bowen Basin regions of Queensland (figure 8.2) — there may be discernible effects on local employment levels and housing markets. Nevertheless, even in these areas, total tax savings from the current exemption (estimated to be in the range of \$10–\$50 million per year for the Pilbara (appendix C)) are

relatively small in comparison with economic output, and it is unlikely that changes to the existing exemption will have significant impacts on the viability of resource projects in the region. Indeed, changes in the economic and employment levels of these regions are much more significantly affected by commodity price volatility.

Figure 8.2 Employer-provided housing is concentrated in certain more-remote areas^a

Employer-provided housing in the FBT remote area, 2016



^a Not all of this housing will be used by employees as their usual place of residence. Some will be used as temporary accommodation, including by workers living away from home or using other FIFO arrangements, and will not be affected by changes to the concession on employer-provided housing as usual place of residence.

Source: Commission calculations based on ABS (*Census of Population and Housing Microdata*, 2016, cat. no. 2037.0.30.001).

Reducing tax savings from the concession and removing the additional areas for ‘certain regional employers’ will affect service delivery. However, the effects will vary.

- Many large Australian and State government agencies that provide key public services are likely to have the capacity to absorb these costs or reallocate budgets and maintain service levels in remote areas.
- However, other service providers — including local governments and not-for-profit providers — may face acute budget constraints. The potential loss of capacity to deliver services from these changes to FBT concessions needs to be duly considered.

As noted in chapter 3, Australia’s system of horizontal fiscal equalisation — under which the Australian Government distributes goods and services tax revenue with the aim of providing each State and Territory government the fiscal capacity to provide its residents with a similar level of public services — takes into account higher per capita expenditure on service delivery in regional and remote Australia. How State and Territory governments actually deliver services is a matter for them and depends on the policies that each government chooses to pursue.

Employee-sourced housing

The partial concessions on employee-sourced housing do not satisfy the condition that there is an operational requirement for employers to provide housing assistance. They are premised on employees securing their own housing, either by renting in the private market or by purchasing a property (even through an employer). However, if employees are able to secure their own residential housing, then there is no operational need for housing assistance.

As discussed in chapter 7 and appendix C, limitations with the current FBT reporting requirements mean that it is not possible to accurately gauge the utilisation of concessions on employee-sourced housing. Use is likely to be concentrated in the same industries and areas as employer-provided housing. Feedback from the Commission’s visits, submissions and questionnaire on FBT use indicate that these partial concessions are less frequently used than the exemption for employer-provided housing.

A number of study participants have proposed changes to these concessions that would make them easier to access and use: principally, moving from a 50 per cent concession to a more generous full exemption. For instance, the RCCIWA (sub. 43) argued that this would ‘greatly assist in easing confusion’ and ‘remove inconsistency’, and KPMG (sub. 70) wrote that it would ‘meet the requirements of equity, efficiency and simplicity’. However, exemptions are costly for taxpayers. Moreover, increasing tax savings by moving to an exemption would introduce distortionary incentives, encouraging employers to provide housing assistance instead of wage income.

The Commission recommends that the partial concessions on employee-sourced housing be removed. Abolishing the partial concessions would negate the tax savings to those currently receiving them, and would result in a modest increase in aggregate tax revenue. However, given the typically modest tax savings from these concessions and their seemingly low rate of use, this change would not be expected to have material economic or employment effects in remote areas of Australia.

To minimise distortions, the removal of partial concessions on employee-sourced housing should be complemented by the Commission’s suggested changes to the concession on employer-provided housing. If the treatment of employer-provided housing is made more tax-neutral, the removal of partial concessions on employee-sourced housing is unlikely to cause significant substitution towards employer-provided housing.

DRAFT RECOMMENDATION 8.2 REMOVE CONCESSION FOR EMPLOYEE-SOURCED HOUSING

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to remove the 50 per cent concession on employee-sourced housing (section 60).

8.3 Other remote area concessions

There are several other types of concessions, relating to residential fuel, meals for primary production employees, and holiday transport which collectively represent between about \$30 million and \$130 million per year in forgone FBT revenue. There is little information on why these concessions were introduced, and — perhaps because they do not cost much in forgone FBT revenue — their policy rationales have received only limited scrutiny to date.

Residential fuel

The partial concession on residential fuel is available in conjunction with the exemption for employer-provided housing and some concessions on employee-sourced housing (chapter 7). This concession provides equitable FBT tax treatment where the provision of residential fuel is an operational requirement for an employer, or where the employee is unable to purchase it independently — for instance, where there is no existing private market for utilities and so the employer is the de facto utility provider. However, it also allows employers to claim a partial concession in cases where the employee could have purchased fuel themselves. For example, the 50 per cent concessions on employee-sourced housing (and, consequently, the partial concession on residential fuel) currently apply in towns with diverse economies that have private utility providers. This means that taxpayers subsidise more fuel than would be required to ensure equity in tax treatment.

Removing the partial concessions on employee-sourced housing (draft recommendation 8.2), and the associated partial concession on residential fuel, would reduce this inequity in the FBT regime. The Australian Government should also amend the FBTA so that the concession on residential fuel for use in conjunction with employer-provided housing (s. 59(1)) is limited to cases where there is an operational requirement for the employer to provide the fuel.

The FBTA could include a self-assessment provision for claimants, as it is generally straightforward to clarify whether or not there is a private supplier or whether utility services are separately metered (which would allow employees to receive a separate utility bill from their employers). Compliance costs should therefore be relatively low.

The proposed changes are unlikely to have a material effect on tax receipts or employment.

- The Commission estimates that FBT revenue forgone due to the partial concession on residential fuel for those in employer-provided housing is about \$20 million per year (about \$1000 per household per year) (appendix C). Limiting the concession to those with an operational requirement would raise less than \$20 million, as some claimants would continue to be eligible for the concession.
- Any change in FBT revenue could be partly offset by changes in income tax revenue — some employers might pay higher wages rather than providing residential fuel, while others might pass on the increased FBT liability for fuel to their employees.
- Employment effects are likely to be small in aggregate. Employer-provided housing makes up only about 5 per cent of all housing in the FBT remote area, and some data suggest that only about half of these dwellings receive residential fuel (appendix C). The partial concessions on assistance with employee-sourced housing are not often used, and only a subset of employees receiving this assistance will also use the residential fuel concession (appendix C).

Some study participants proposed expanding the partial concession on residential fuel to include amenities such as water (RCCIWA, sub. 43, p. 3; City of Kalgoorlie-Boulder, sub. 52 p. 13; NALSPA, sub. 54, p. 15; Isaac Regional Council, sub. 63, p. 2) and telecommunications (PwC, sub. 55, pp. 9–10), which are omitted under the current regime. However, most of these proposals were premised on the view that the FBT remote area concessions should be used to promote regional development or to mitigate the high cost of living in remote areas. The Commission does not consider that FBT should be used to pursue these objectives, as they are better addressed in other ways (chapter 7).

Meals for primary production employees

This exemption affects employees undertaking primary production activities in the FBT remote area (s. 58ZD of the FBTAA). The meals must be ready to consume, must be provided only on working days, can be provided as an expense reimbursement, and do not need to be provided onsite by the employer. The exemption is worth between \$10 million and \$100 million per year in FBT revenue (appendix C).

The exemption can be justified on the basis that there is often an operational requirement for the employers to supply meals — for instance, where there are no alternative arrangements. But its complexity, particularly in defining meals ‘ready for consumption’, leaves employers and employees confused about eligibility (chapter 7). It also leads to inconsistent tax treatment of very similar fringe benefits and results in disproportionate compliance costs.

To help address these issues, the Australian Government should amend the FBTAA to:

1. apply the exemption to meals regardless of whether or not they are ready for consumption
2. limit the exemption to cases where there is an operational requirement for the employer to provide meals.

Extending the exemption to meals not provided ‘ready for consumption’ would reduce FBT revenue. However, limiting the exemption to situations where there is an operational requirement would increase FBT revenue, assuming that some employers continued to provide meals in other situations.

Several other reform options were considered but ruled unnecessary: extending the exemption to other industries, removing the exemption altogether, and changing the exemption to a partial concession.

Leaving the exemption available only to employers and employees in the primary production industries, but not to others in industries with similar operational requirements, could result in inequities. However, the Commission has not received any comments on these inequities from study participants. It may be that employers in other industries can claim concessions for meals under other FBTAA provisions — for example, as a ‘board fringe benefit’ in conjunction with accommodation (valued at \$2 per meal), as a ‘property benefit’ when consumed on business premises, or as a ‘minor benefit’ where the taxable value is under \$300 per meal provided on an infrequent and irregular basis (chapter 7).

In the absence of the remote area exemption, primary producers might still be able to use these alternative concessions for the meals they provide. There could, therefore, be a case for removing the exemption in order to streamline the FBT system. However, it is unclear how onerous it would be for these employers to claim under alternative concessions, and so the effects of abolishing this exemption are uncertain. Moreover, the remote area exemption covers meals provided in a broader range of circumstances than the alternative concessions, and retaining it would avoid unintentionally excluding employers.

A partial concession could be more appropriate than an exemption because employees privately benefit from meals. However, the relatively low tax savings from the concession — between \$60 and \$600 per employee per year — suggest that any additional revenue generated would be outweighed by the additional administration and compliance costs. Consequently, the Commission advocates retaining the exemption in this instance.

Holiday transport

The existing partial concession on holiday transport (ss. 60A and 61 of the FBTAA) should be removed. The provision of holiday transport, and any accommodation and meals consumed in the process, directly benefits employees. Such expenses are generally private in nature and would typically be met by employees from their after-tax income. Furthermore, there is no operational reason to provide these services, which employees could purchase themselves. The current design cannot be justified on the basis of equitable tax treatment; it effectively allows for private holidays to be partially funded by taxpayers.

Although aggregate tax savings from the holiday transport concession are small — up to \$10 million in 2018-19 (appendix C) — some participants in this study have suggested that

removing the concession would increase employer costs (CPA Australia, sub. 72) and affect their ability to attract and retain staff (Central Land Council, sub. 35).

These potential impacts do not justify retaining the concession, for three reasons. First, in the absence of broader public benefits, principles of efficient resource allocation dictate that employers should face the full cost of doing business. Second, many larger public-sector employers (which provide key public services) will have the financial capacity to pay the full costs of holiday transport, or offer higher wages so that employees can purchase the transport themselves. Third, in those remaining cases where employers who provide key services are budget-constrained, there are likely to be more targeted ways to ensure adequate provision of services than a broad-based tax concession (chapter 7).

Abolishing the partial concession on holiday transport could raise up to \$10 million in FBT each year (appendix C). However, this analysis does not take into consideration any behavioural responses by employers. FBT and income tax revenues would both change in different ways depending on whether employers substituted higher wages for provision of holiday transport, discontinued the provision of holiday transport without altering wages, or passed on the FBT liability to the employee.

DRAFT RECOMMENDATION 8.3 **TIGHTEN TAX TREATMENT OF OTHER GOODS AND SERVICES**

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to change the tax treatment of residential fuel, meals for primary production employees, and holiday transport provided by employers in remote areas. Specifically, it should:

- limit access to the residential fuel concession for use in conjunction with employer-provided housing (section 59(1)) to instances where there is an operational requirement for the employer to provide residential fuel
- remove the residential fuel concession for use in conjunction with employee-sourced housing (section 59(2) and (3))
- limit access to the exemption that currently applies to meals for primary production employees (section 58ZD) to instances where there is an operational requirement for the employer to provide these meals
- remove the definition limiting the exemption to meals ‘ready for consumption’, as it leads to ambiguity and difficulty in implementation
- remove the holiday transport concession (section 60A and section 61).

8.4 FBT remote area boundaries

There is a case for retaining geographical boundaries, but they carry some risks

Geographical restrictions on the concessions have several merits. They are a comparatively simple, objective, and intuitive way to approximate those circumstances the concessions attempt to target (particularly for housing). The further away from population centres an employee is based, the more likely it is that employer-provided housing is warranted due to the lack of alternative accommodation available.

Geographical restrictions on FBT concessions also reduce the need for prescriptive eligibility rules. They remove areas, such as capital cities or the surrounding regions, where concessions are more likely to be used in tax reduction strategies than in response to operational requirements.

However, geographical restrictions are not without their drawbacks. One drawback is that the specific areas included and excluded are contestable: inevitably, lines drawn on a map are somewhat arbitrary and create inequities between those who can and cannot access the concessions when they face otherwise similar circumstances. Drawing boundaries too narrowly risks excluding cases where it is necessary to provide goods and services, such as housing, to employees (for example, on farms in less remote areas). Conversely, defining the areas too broadly makes the concessions more likely to be used in cases where they are not necessary.

Choosing appropriate boundaries means making a trade-off between these risks. Making the concessions more tax neutral, particularly by changing the remote area housing exemption to a 50 per cent concession, would reduce incentives for employers to provide goods and services (especially housing) where there is no operational requirement to do so. This would reduce the costs of drawing boundaries too widely, as the boundaries would become less critical in regulating use of the concessions.

Accordingly, provided that the exemption for employer-provided housing is changed to a 50 per cent concession and that the concessions not justified on operational grounds are removed, the existing approach to defining boundaries should remain broadly fit for purpose.

A second drawback, which the proposed changes do not mitigate, is that the boundaries raise constitutional validity risks (chapter 1).

Geographical restrictions should be updated to reflect current populations and decisions made on the ZTO

Although the current boundaries for FBT remote area concessions would be broadly fit for purpose if combined with proposed changes to the rate of the housing concession and the removal of other concessions, there is a case for updating them to reflect current populations and decisions made on the ZTO (chapter 5).

A minimalist approach — updating populations that define eligible urban areas

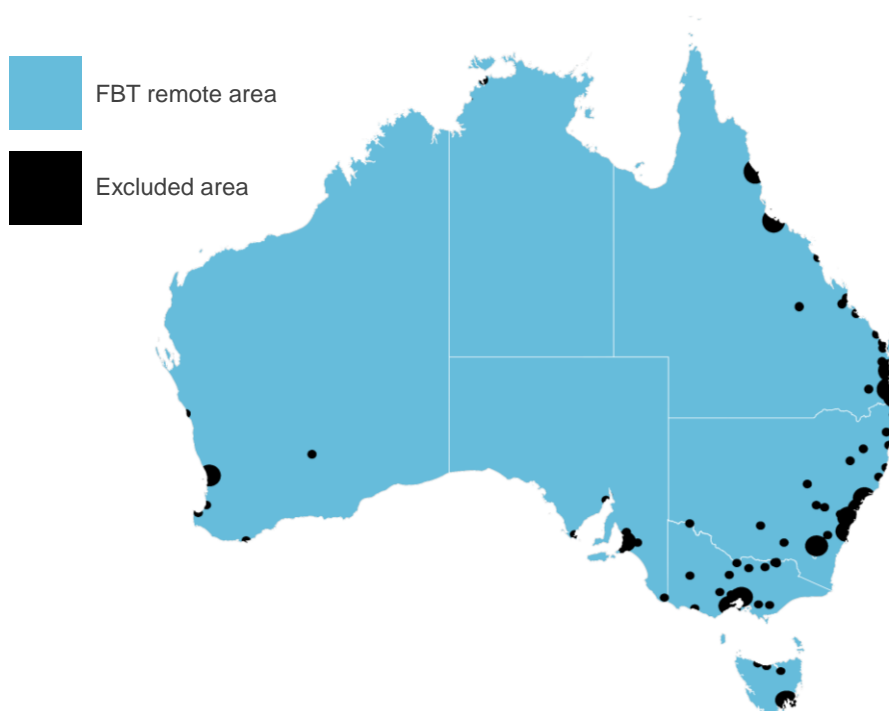
A minimalist approach would be simply to update the list of eligible urban areas to reflect changes in regional populations. The current remote areas are based on measures of population from the 1981 Census. Over almost four decades, population growth has meant that some areas once classified as remote for FBT purposes are no longer remote; meanwhile, population decline in other areas would now render those areas remote.

Periodically updating eligibility rules to reflect these population changes would be consistent with the view that these rules are a consistent, transparent and objective way of approximating situations where an employer may need to provide housing for operational reasons. However, this could be disruptive, and so there are questions about how often it should be done. Updating the boundaries every five years could create investment uncertainty. In response to this concern, the Chamber of Minerals and Energy of Western Australia suggested that:

To provide stability and certainty to employers who have the onus of compliance, the definition should be reviewed only on a periodic basis such as every second or third Census. (sub. 95, p. 2)

In some cases, updating the boundaries every five years could result in eligible urban areas oscillating in and out of the FBT remote areas. For example, using 2016 Census figures (figure 8.3), Kalgoorlie-Boulder would be excluded from the FBT remote area because its population (29 875) exceeded the threshold, but it would be included again if its population fell below 28 000 in a subsequent Census.

Figure 8.3 **Updating the existing FBT remote areas to 2016 Census populations^a**



^a Areas are approximate only. Eligibility is based on distance by road rather than straight line distances, so distances have been adjusted by a factor of 0.7 to approximate road distances.

Source: Commission estimates.

Options to redefine FBT remote areas if the ZTO is removed

Beyond these minimalist changes, further changes may be required to remove the link between the FBT remote area definitions and the ZTO zones to reflect decisions made on the ZTO (chapter 5). Below are two possible options.

Link eligibility rules to ABS remoteness areas. In accordance with the Commission's recommendations to abolish the ZTO and align the remote area allowance boundaries with the ABS remoteness areas, the population thresholds for the FBT remote area definitions could be varied with reference to ABS remoteness areas rather than the existing Zones A and B. That is, larger population thresholds could be applied in areas classified as *remote* or *very remote*, with smaller population thresholds applying elsewhere. In practice, this would broadly mimic the current approach while removing dependency on historical ZTO boundaries. However, it might also introduce additional complexity in specifying and identifying areas where the remote area concessions apply.

Decouple eligibility rules from the ZTO zones. Another option would be to remove the zone-based differences in population thresholds for eligible urban areas. There is no explicit or compelling rationale for setting different thresholds inside and outside the zones — housing availability in a town of between 14 000 and 28 000 in Zones A and B will not necessarily be materially worse than in a similar-sized town outside the zones. Removing the zone-based differences would be simpler, and would minimise the legislation’s dependence on external definitions. However, it would involve further subjective decisions on the appropriate population thresholds, which would presumably be somewhere in the range of the existing 14 000 and 28 000 thresholds.

Remove geographical restrictions altogether

The final option would be to discard geographical restrictions completely. This would have the dual advantages of mitigating constitutional validity risks and enabling access to the concessions wherever there is an operational requirement to provide the relevant goods or services. However, it is concerning that access to the concession would only be restricted by the ‘necessary’ condition and the associated legislative tests. Because these tests involve subjective self-assessment by employers, there is a risk that usage could expand markedly in the absence of geographical boundaries. While the change from an exemption to a partial concession reduces the incentives for misuse, further prescriptive rules or guidance would be necessary.

INFORMATION REQUEST 5

How often should the FBT remote area boundaries be updated?

Should the FBT remote area boundaries be decoupled from the ZTO boundaries? If so, how?

Can the other eligibility rules for remote area concessions be improved sufficiently to make geographical boundaries redundant?

8.5 Summary of proposed changes

Table 8.2 summarises the Commission’s proposed changes to the design of FBT remote area concessions. (As discussed in chapter 7, the Commission is not proposing changes to the existing exemptions for FIFO arrangements.) Although the proposed changes are expected to benefit the broader Australian community, the Commission is seeking further information to understand how they would play out in specific remote areas.

Table 8.2 Proposed changes to FBT remote area concessions

	<i>Existing concessions</i>	<i>Proposed changes</i>
Employer-provided housing	Exemption from FBT for employer-provided housing in designated remote areas (FBTAA, s. 58ZC)	<ul style="list-style-type: none"> • Change the exemption to a 50 per cent concession • Remove the provision that enables employers to claim the concession because it is 'customary' to provide housing (s. 58ZC(2)(d)(iii)) • Remove the extension of the concession to additional areas for 'certain regional employers' (s. 140(1A))
Employee-sourced housing	Partial (50 per cent) concession on other forms of housing assistance in designated remote areas (FBTAA, s. 60)	<ul style="list-style-type: none"> • Remove the partial concessions on employee-sourced housing
Temporary accommodation, meals and transport for FIFO workers	Exemption from FBT for temporary accommodation, meals and transport for FIFO workers (Note: remote area transport (s. 47(7)) is the only concession linked to remote area boundaries)	<ul style="list-style-type: none"> • No change to existing concessions for FIFO arrangements
Residential fuel	Partial (50 per cent) concession for residential fuel used in housing that attracts an FBT remote area concession (FBTAA, s. 59)	<ul style="list-style-type: none"> • Limit access to the concession for use in conjunction with employer-provided housing to instances where there is an operational requirement for the employer to provide residential fuel (s. 59(1)) • Remove the concession for use in conjunction with employee-sourced housing (s. 59(2) and (3))
Meals for primary production employees	Exemption from FBT for meals provided to primary production employees on work days (FBTAA, s. 58ZD)	<ul style="list-style-type: none"> • Limit access to instances where there is an operational requirement to provide meals • Remove the definition limiting the exemption to meals 'ready for consumption'
Holiday transport	Partial (50 per cent) concession on return holiday transport to specified destinations. (FBTAA, s. 60A and s. 61)	<ul style="list-style-type: none"> • Remove the holiday transport concession

INFORMATION REQUEST 6

What impacts would the proposed changes to FBT remote area concessions (particularly for housing) have on the provision of key public services, such as health services, in remote areas?

A Conduct of the study

The Commission received the terms of reference for this study on 28 November 2018, which instructed the Commission to commence the study in February 2019. It subsequently released an issues paper on 12 March 2019 inviting public submissions and highlighting particular matters on which it sought information.

In total, 98 submissions were received and placed on the study website. A list of all submissions is contained in table A.1. The Commission also received 12 brief comments, and these are also available on the website.

During the course of the study, the Commission held consultations and roundtable discussions with individuals and community organisations, governments across local, state and federal levels, industry groups and academics. This included Commissioners and staff travelling to a range of remote locations around the country for site visits, meetings and community forums. Table A.2 lists these participants.

The Commission would like to thank all those who contributed to this study and looks forward to continued engagement following the release of this draft report.

Table A.1 Public submissions received

<i>Participants</i>	<i>Submission number</i>
AgForce Queensland	94
Agribusiness Australia	46
Ainsworth, Malcolm	10
AJ & PA McBride Ltd	61
Association of Mining and Exploration Companies (AMEC)	83
Balonne Shire Council	28
Boston, Paquita	8
Bundaberg Regional Council	62
Burke Shire Council	42
Burketown Caravan Park	22
Burketown Convenience Store	80
Burnie Chamber of Commerce and Industry	34
Campbell, Louise	23
Capricorn Enterprise	47
Carnarvon Tackle and Marine	19
Carpentaria Shire Council	20
Central Land Council	35
Chamber of Minerals and Energy of Western Australia (CME)	95
Chartered Accountants Australia and New Zealand	73
City of Albany	81
City of Busselton	88
City of Kalgoorlie-Boulder	52
Cloncurry Shire Council	45
CPA Australia	72
Department of Home Affairs	*44
Department of Primary Industries and Regional Development (WA)	82
Douglas, Robert	4
Dreise, Tony	71
Ernie and Kylie Camp	64
Fardell, Nicholas	97
Fullarton, Alexander	#1
Fullarton, Julie	12
Fyson, Chris	53
Galvins Plumbing Supplies	30
Gerhardy, Saskia	7
Goldfields Voluntary Regional Organisation of Councils (GVROC)	41
Gosling, Luke MP, Federal Member for Solomon	96
Hamilton Island Enterprises	*#18
Haslam-McKenzie, Fiona Prof (University of Western Australia)	89
Hits Radio	11
Indigenous Reference Group to the Ministerial Forum on Northern Development	87
Isaac Regional Council	63

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Table A.1 (continued)

<i>Participants</i>	<i>Submission number</i>
Isolated Children's Parents' Association of Australia	74
Juniper, John	48
Kaloorlie Boulder Chamber of Commerce and Industry	58
Kerr, Simon	3
King Island Chamber of Commerce	21
King Island Council	75
KPMG	70
Landry, Michelle MP, Federal Member for Capricornia	16
Lane, Gail	5
Livingstone Shire Council	29
Local Government Association of the Northern Territory (LGANT)	66
Local Government Association of Queensland (LGAQ)	90
Mareeba Shire Council	13
Marshall, Madison	51
McGrane, Victoria	56
McLaren, John	#14
Mcleod, Rory	2
Minerals Council of Australia (MCA)	76
Moren, Shannon	49
Mount Isa to Townsville Economic Development Zone (MITEZ)	67
Murray, Tonya	50
Murweh Shire Council	27
National Automotive Leasing and Salary Packaging Association (NALSPA)	54
National Farmers' Federation (NFF)	85
Newmont Goldcorp Australia	78
North West Queensland Regional Organisation of Councils (NWQROC)	33
Northern Territory Government	60
Optitax	77
Pastalatzis, Nick	92
Peel Valentine Whitehead (PVW) Partners	59
People and Culture Office	15
Portch, Cheryl	#39
Potter, James	25
PricewaterhouseCoopers (PwC)	55
Queensland Education Department	*93
Queensland Resources Council (QRC)	31
Redland City Council	65
Regional Chambers of Commerce and Industry of WA (RCCIWA)	43
Regional Development Australia (RDA) Goldfields Esperance	40
Regional Development Australia (RDA) Tasmania	69
Rintoul, Allan	32
Rockhampton Regional Council	57

(continued next page)

Table A.1 (continued)

<i>Participants</i>	<i>Submission number</i>
Shire of Carnarvon	#26
Shire of Coolgardie	38
Shire of Flinders	91
South West Regional Economic Development (SWRED)	#86
Tasmanian Government	24
Thompson, Keith	6
Thompson, Lisa	9
Townsville Chamber of Commerce	37
Townsville City Council	68
Trigg, Katherine	17
Western Australian Local Government Association (WALGA)	79
Western Australia Party	84
Whitsunday Regional Council	36
Ziegler, Lynette	98

a An asterisk (*) indicates that the submission contains confidential material NOT available to the public. A hash (#) indicates that the submission includes attachments.

Table A.2 Consultations

Participants

ACT

Australian Bureau of Statistics
Australian Government Solicitor
Australian Taxation Office
Department of Defence
Department of Infrastructure, Regional Development and Cities
Department of Jobs and Small Business
Department of Prime Minister and Cabinet
Department of Social Services
Department of the Attorney General
Department of the Treasury
Minerals Council of Australia
National Farmers' Federation
Regional Australia Institute

Video/teleconference

Australian National University, Centre for Aboriginal Economic Policy Research
BHP
Board of Taxation
Cloncurry Mayor
Department of Industry, Innovation and Science
Department of Premier and Cabinet (NSW)
Department of Premier and Cabinet (TAS)
Department of Primary Industries and Regional Development (WA)
Department of State Development, Manufacturing, Infrastructure and Planning (QLD)
Department of the Chief Minister (NT)
Department of Trade, Business and Innovation
Department of Treasury (NSW)
Department of Treasury (SA)
Department of Treasury and Finance (NT)
McLaren, John Dr (Tasmanian School of Business and Economics)
National Automotive Leasing and Salary Packaging Association (NALSPA)
Office of Northern Australia
Primary Industries and Regions South Australia (SA)

Tasmania

King Island — 18 March 2019

King Island Community Forum
King Island Chamber of Commerce
King Island Council and Mayor
King Island Dairy
King Island Regional Development Organisation
Phoenix Community House

(continued next page)

Table A.2 (continued)

Participants

Burnie — 19 March 2019

Burnie Chamber of Commerce and Industry
Burnie City Council
Regional Development Australia Tasmania — North West
Tasmanian Minerals and Energy Council

Queenstown — 19 March 2019

Queenstown Community Forum
West Coast Council

Launceston — 20 March 2019

Flinders Council
Launceston Chamber of Commerce
Office of the Coordinator-General (Tasmania)
Regional Development Australia Tasmania

Queensland

Mount Isa — 1 April 2019

Commerce North West
Glencore
Isolated Children's Parents' Association Australia
Mount Isa Mayor and Deputy Mayor
Mount Isa to Townsville Economic Development Zone

Normanton — 2 April 2019

Carpentaria Shire Mayor
Normanton Community Forum

Karumba — 2 April 2019

Tunney, Yvonne

Cairns — 3 April 2019

Brennan, Tamilyn (TJB Consulting)
Cairns Chamber of Commerce
Cairns Regional Council
Chaiechi, Taha Dr (James Cook University)
Cummings, Bill (Cummings Economics)
Enterprise North
Local Government Association of Queensland
MiHaven
Precruitment
Pryce, Josephine A/Prof (James Cook University)
Sea Swift

(continued next page)

Table A.2 (continued)

Participants

Townsville — 4 April 2019

AEC Group
Burdekin Shire Council
Hall, John (Employment Facilitator)
PVW Partners
Regional Development Australia Townsville and North West Queensland
Sealink Queensland
Townsville Chamber of Commerce
Townsville City Council
Townsville Enterprise
Townsville Mayor
TP Human Capital
Wilson/Ryan/Grose lawyers

South Australia

Port Augusta — 8 April 2019

Outback Communities Authority
Regional Development Australia Far North

Andamooka — 8 April 2019

Andamooka Community Forum
Andamooka Community Health Service

Andamooka — 9 April 2019

Andamooka Primary School

Billa Kalina — 9 April 2019

Billa Kalina Station

Roxby Downs — 9 April 2019

Roxby Business Forum
Roxby Council
Roxby Downs Area School

Roxby Downs — 10 April 2019

Time for Wellbeing

Woomera — 10 April 2019

Woomera Board and Pimba Progress Association

Whyalla — 10 April 2019

Regional Development Australia Whyalla and Eyre Peninsula

Kangaroo Island — 8 July 2019

Business Kangaroo Island
Kangaroo Island Community Forum
Kangaroo Island Council
Commissioner for Kangaroo Island
Kangaroo Island Tourism Food Wine and Beverage Association

(continued next page)

Table A.2 (continued)

Participants

Northern Territory

Darwin — 29 April 2019

Defence Families Australia

Northern Territory Council of Social Services

Tremblay, Pascal Dr (Charles Darwin University)

29 April 2019 — Industry Roundtable (Darwin)

Buy Local Industry Advocate

Cooperative Research Centre Northern Australia

Hospitality Northern Territory

Northern Territory Cattlemen's Association

Northern Territory Indigenous Business Network

Maningrida — 30 April 2019

Bawinanga Aboriginal Corporation Community Development

Bawinanga Aboriginal Corporation Money Management Service

Bawinanga Aboriginal Corporation

GREATS Youth Service

Maningrida Community Forum

Maningrida Progress Association

MLA for Arafura

West Arnhem Regional Council and Mayor

Katherine — 1 May 2019

Amtax Northern Territory

Brummitt, David Dr (Gorge Health)

Chamber of Commerce Northern Territory

Charles Darwin University

Department of the Chief Minister (NT) – Big Rivers Region

DPR Insurance

eMerge IT Solutions

Katherine Town Council

Roper Gulf Regional Council

Station Mechanical Solutions

Travel North Katherine

(continued next page)

Table A.2 (continued)

Participants

Darwin 2 May 2019 — Roundtable

Department of Education (NT)
Department of Health (NT)
Department of Trade, Business and Innovation (NT)
Department of Treasury and Finance (NT)
Office of the Commissioner for Public Employment (NT)
Police Fire and Emergency Services (NT)
Top End Health Services

Western Australia

Kununurra — 2 May 2019

KAS Accounting Solutions
MG Corporation
Shire of Wyndham-East Kimberley
Wunun/iBase

Kununurra — 3 May 2019

East Kimberley Chamber of Commerce and Industry

Broome — 3 May 2019

Broome Community Forum
Nyamba Buru Yawuru

Port Hedland — 6 May 2019

City of Karratha
Fullarton, Lex, Adjunct Professor (Curtin University)
Pilbara Meta Maya Regional Aboriginal Corporation
Port Hedland Chamber of Commerce
Shire of East Pilbara
Town of Port Hedland

Kalgoorlie — 7 May 2019

City of Kalgoorlie-Boulder
Kalgoorlie-Boulder Chamber of Commerce and Industry
Kalgoorlie Community Forum
Shire of Coolgardie and Shire of Dundas

Perth — 7 May 2019

Association of Mining and Exploration Companies
Chamber of Minerals and Energy of Western Australia
Department of Primary Industries and Regional Development (WA)
Pastoralist and Graziers Association of Western Australia
Rio Tinto

(continued next page)

Table A.2 (continued)

Participants

New South Wales

Lord Howe Island — 13 May 2019

Lord Howe Island Board

Lord Howe Island Central School

Lord Howe Island Community Forum

Lord Howe Island Tourist Association

Broken Hill — 14 May 2019

Broken Hill Council

Wilcannia — 14 May 2019

Central Darling Shire Council

Wilcannia Indigenous Land Council

Wilcannia/White Cliffs Community Forum

Sydney — 15 May 2019

Kettlewell, Nathan Dr (University of Sydney)

Victoria

Melbourne

National Automotive Leasing and Salary Packaging Association (NALSPA)

Grattan Institute

B The cost of living in remote Australia

This appendix contains further details of the Commission’s analysis of the cost of living in remote areas of Australia relative to other parts of the country, presented in chapter 2 and drawn on in chapters 4 and 6.

As discussed in those latter chapters, the zone tax offset (ZTO) and the remote area allowance (RAA) are predicated largely on the idea that eligible ‘remote’ zones have higher living costs than other areas. As part of its analysis of the ZTO and the RAA, the Commission has sought to test this argument. It has also sought to understand how costs of living vary by a more contemporary measure of remoteness, namely the ‘remoteness areas’ published by the ABS.

To that end, the appendix:

- explains the broad approach adopted by the Commission, including the variety of data it has used (section B.1)
- examines the evidence on price differentials between parts of Australia, both for total spending and for specific categories of consumer spending (sections B.2 and B.3)
- looks at how the cost of living in Darwin — the only Australian capital city in which residents are eligible for the ZTO or the RAA — compares with the cost of living in other capital cities (section B.4).

While the Commission has drawn on a range of data sources for this exercise, the data available are patchy, which adds to the difficulties of comparing the cost of living across disparate parts of Australia. The results therefore need to be interpreted carefully. The Commission intends to conduct further analysis for the final report.

B.1 Methodology and data

‘Cost of living’ refers to the cost of maintaining a certain standard of living, which can be approximated by measuring the cost of consuming a typical basket of goods and services.⁶⁹ In Australia, this basket is often compiled using the results of the ABS Household Expenditure Survey, which measures household expenditure patterns across Australia.

Ideally, the Commission would compare living costs in the eligible zones or remote areas to living costs in the rest of Australia (and not just in other parts of a particular state or territory). This is because the ZTO and the RAA are Australian Government measures and are effectively funded by all Australian taxpayers.

However, there is no national measure of the cost of living in different parts of Australia. The most commonly-used measure of prices in Australia is the consumer price index (CPI), compiled by the ABS. The CPI collects price data only for capital cities and is a measure of price change over time, not a measure of price levels; consequently, it is of limited use in comparing the cost of living between remote and non-remote areas of Australia.⁷⁰ The ABS also publishes Selected Living Cost Indexes which measure change in the purchasing power of certain types of households (for example, age pensioner households) over time. However, the price data incorporated in the indexes are mostly sourced from the CPI survey, and the indexes are published at the national level only; they are not disaggregated geographically.

In the absence of a suitable national measure, the Commission has had to draw on a wide range of sources to help piece together a picture of how costs of living differ across Australia (table B.1). These sources vary in their quality and coverage, which the Commission has taken into account in the weight it has placed on each in its analysis. The Commission has relied most heavily on regional price indexes compiled by the Western Australian and Queensland governments in assessing the difference in overall cost of living between remote and non-remote areas. It has augmented the results of the indexes with the other data sources in table B.1, as appropriate.

The Commission has also drawn on submissions provided to the study, the majority of which raised cost of living as an issue for people in remote areas. The most common cost-of-living

⁶⁹ Technically, the ‘standard of living’ should include the value of intangible goods and services such as clean air, quality water or the amenity provided by national parks. The difficulties of measuring such factors and the value householders place on them means they are typically not included in statistical indexes of living standards (ABS 2019e). In addition, a cost of living index would ideally capture substitution effects — people responding to changes in factors such as relative prices, preferences and quality by substituting from one basket of goods and services to another to maintain the same standard of living. These matters need to be accounted for separately where they are sufficiently relevant to the policy issues at hand.

⁷⁰ In its 2010 review of the CPI, the ABS stated that it would develop and publish annual price indexes that would allow for the spatial comparison of prices, subject to appropriate funding and the consideration of competing priorities (ABS 2010, p. 33). This is not currently being pursued by the ABS (pers. comm., 27 June 2019).

concerns raised were in relation to regional airfares, food, freight costs, fuel and utilities (water and electricity).

The results are reported using the taxation zones⁷¹ and ABS remoteness categories.

Table B.1 Main sources considered by the Commission

<i>Source</i>	<i>Subject of data and information</i>
ABS Census data	Rent and mortgage payments
ABS Household Expenditure Survey data	Household expenditure patterns
ACCC petrol price data	Petrol prices, including the difference between regional and metropolitan prices
ABS CPI data	Inflation in Darwin and other capital cities
2017 grocery price survey data from the consumer advocacy body, CHOICE	Grocery prices in regional and metropolitan supermarkets
Western Australia 2017 Regional Price Index	Consumer prices in Western Australia
Index of retail prices in Queensland regional centres, 2015	Consumer prices in Queensland
Northern Territory Market Basket Survey 2016	Food prices in different parts of the Northern Territory
Rent data provided by the Department of Defence	Rent paid by the Department of Defence for housing in different locations across Australia
Data from Numbeo, an online database of user-contributed data on living conditions, including prices and cost of living	Consumer prices in a number of Australian cities
Bureau of Infrastructure, Transport and Regional Economics data and analysis of grocery prices	Grocery prices across Australia
Western Australian and Australian parliamentary inquiries into regional airfares	Regional airfares
Report by Phillips et al. (2012) on the cost of living in Australia	Cost of living in Australian capital cities
Household, Income and Labour Dynamics in Australia Survey	Housing costs and commute times

⁷¹ In this appendix, references to 'Zone A' and 'Zone B' are to the ordinary parts of those zones and exclude special areas in those zones. References to 'special areas' include both special Zone A and special Zone B.

B.2 Overall price levels by zone and ABS remoteness category

The regional price indexes for Western Australia and Queensland allow comparison of the price of a typical household ‘basket of goods’ across different regions within those states.

The Western Australia regional price index was first produced by the Western Australian Government in 1998; there have since been seven more issues, with the latest released in 2017. In that year, the survey covered more than 600 goods and services in 27 locations, capturing the majority of the population in each of the nine non-metropolitan regions in Western Australia (DPIRD 2017).

The Queensland regional price index compares the prices of a basket of household goods and services in the Brisbane region and in selected Queensland regional centres. It has been produced, on an irregular basis, by the Queensland Government since at least 1999. The latest release is based on prices collected in August 2015 (QGSO 2016).

For its analysis, the Commission assigned each community for which data was reported in the regional price indexes to its respective zone (for communities that were in a zone) and ABS remoteness area. The *inner regional* and *outer regional* remoteness categories were merged, as differentiating between them was unnecessary for this analysis. Observations in the *major city* remoteness category were not included in the analysis, as the state capital cities (Perth and Brisbane) provided an adequate benchmark for comparing regional and remote prices.

In comparing the average price levels of zones and remoteness areas, the Commission used unweighted averages. As noted in box B.1, the regional price indexes are biased in favour of larger regional centres; weighting observations by population would exacerbate this effect and further mask price differentials between the state capitals and the most remote communities. We did not take an overall average across Western Australia and Queensland, as the index values are not directly comparable (box B.1).

Box B.1 **Limitations of the regional price indexes**

General limitations

- Price patterns in Western Australia and Queensland may differ from those in other jurisdictions.
 - Western Australia and Queensland are heavily oriented towards mining, and this may affect their price patterns.
- The indexes contain only a small sample of remote communities, and there is a bias towards larger regional centres and mining communities.
- The indexes use uniform consumption bundles across the states. In reality, consumption patterns vary (both within and across states) due to different consumer preferences and responses to different relative prices/availability of goods and services.
- The indexes capture the price of various goods and services but not the cost of accessing those goods and services, which may be higher in remote areas.

Limitations specific to the Queensland index

- Weipa is the only special area community surveyed. Weipa is a coastal mining town on the Cape York Peninsula and home to about 16 per cent of Queensland's special area population (ABS 2017a).
- Only three communities classified by the ABS as *very remote* were surveyed: one of these is Weipa, and the other two are Longreach and Charleville (which are both in Zone B).
- Mount Isa is the only community surveyed which is in Zone A and is also the only one classified by the ABS as *remote*. Even so, with a population of about 22 000 in 2016, it is the administrative and commercial centre of Queensland's north-western region and home to around 62 per cent of Queensland's Zone A population (ABS 2017a).

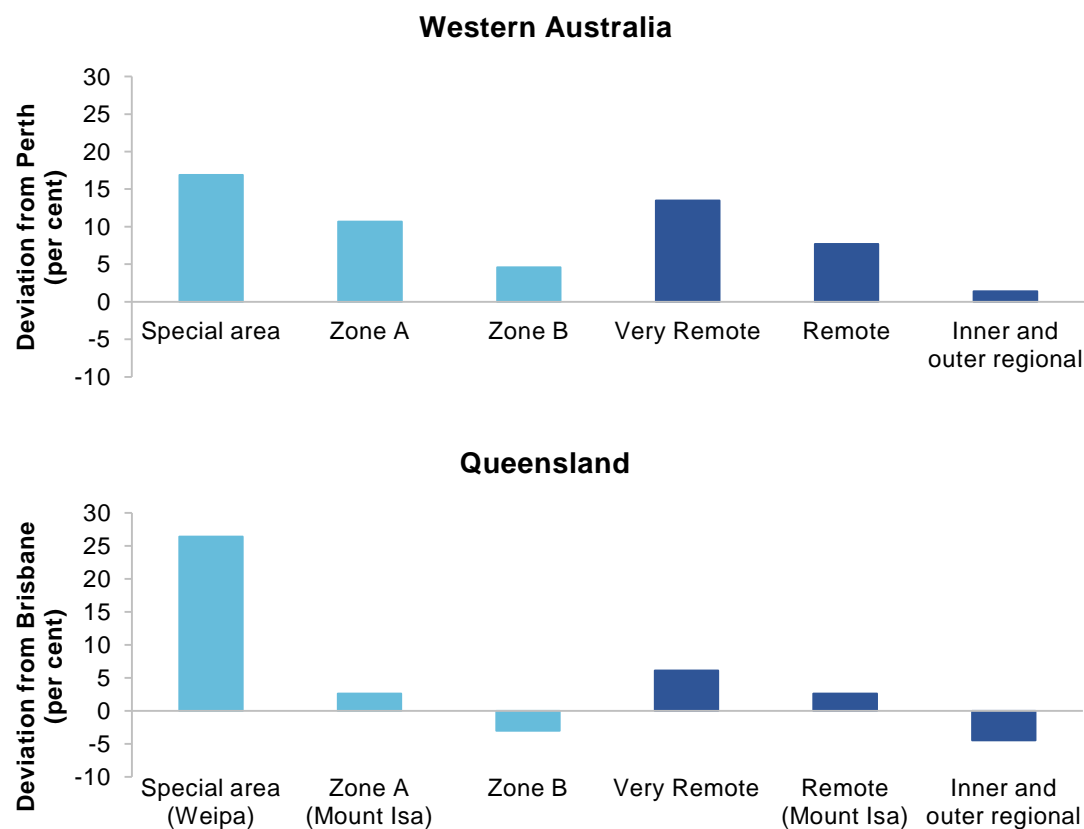
Sources: ABS (2017a); DPIRD (2017); QGSO (2016).

Subject to the limitations noted above, in both Western Australia and Queensland the average price of a typical household basket of goods increases with greater 'remoteness', as defined by the zones and ABS remoteness areas (figure B.1).

- The price levels in special area communities are higher than those in Zone A communities, which in turn are higher than those in Zone B communities. Price levels in Zone B communities (which include the regional cities of Townsville, Cairns and Mackay) are not significantly different to those in their respective capital cities — on average, they are within 5 per cent.
- Similarly, on average, price levels in *very remote* communities are higher than those in *remote* communities, which are again higher than those in their respective capital cities. (The average price levels in *inner* and *outer regional* communities are within 5 per cent of price levels in the relevant capital cities.)

The typical pattern of prices increasing with remoteness is particularly evident in Western Australia (figure B.2). For example, prices in Zone A were on average 10.7 per cent higher than in Perth. By contrast, prices in Mount Isa, the only Zone A community surveyed in Queensland, were only 2.6 per cent higher than in Brisbane.

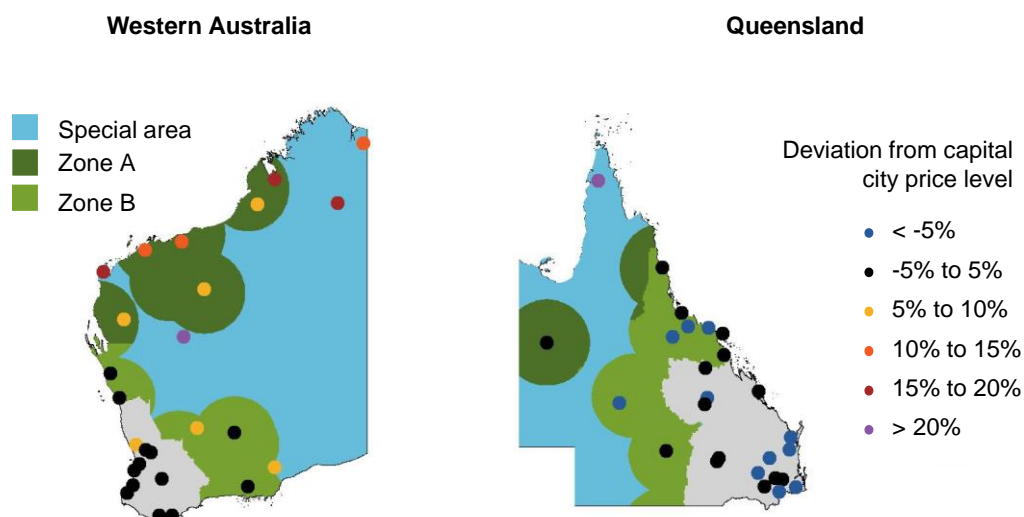
Figure B.1 Variation in price levels by degree of remoteness^{a,b,c,d}
 Cost of overall basket of goods and services by zone and ABS remoteness area, Western Australia and Queensland regional price indexes



^a Western Australia prices were surveyed in 2017 and Queensland prices were surveyed in 2015. The indexes measure the deviation of price levels from those measured in the state's capital city. ^b Unweighted averages of observations are shown. In Queensland, there were three observations in the *very remote* category; two of these population centres were also in Zone B and had lower price levels than in Brisbane. ^c In Queensland, only one community was surveyed in each of the following categories: special area (Weipa), Zone A (Mount Isa) and *remote* (Mount Isa). ^d The light blue bars refer to the zones as defined for the purposes of the ZTO. The darker blue bars refer to remoteness categories as defined by the ABS.

Sources: DPIRD (2017); QGSO (2016).

Figure B.2 **Cost of overall basket of goods in the zones, from Western Australian and Queensland regional price indexes**



Sources: DPIRD (2017); QGSO (2016).

There can be significant variation in price levels within zones and remoteness areas. For example, prices in Queensland's three *very remote* communities were on average 6.1 per cent higher than in Brisbane but, for the individual communities, price deviations ranged from 5.1 per cent cheaper to 26.4 per cent more expensive than Brisbane. This range is so large because two of the three *very remote* communities (Charleville and Longreach) have significantly lower housing costs and lower overall costs relative to Brisbane, with the remaining *very remote* community, Weipa, having significantly higher housing and overall costs than Brisbane.

B.3 A closer look at individual expense categories

The ABS Household Expenditure Survey shows that, on average, Australians in zones and major cities have similar consumption patterns (ABS 2017c). The largest expenses for the typical Australian household, remote or urban, are:⁷²

- current housing costs (20-25 per cent of household expenditure)
- food and non-alcoholic beverages (15-20 per cent of household expenditure)
- transport (10-15 per cent of household expenditure)
- recreation (10-15 per cent of household expenditure) (ABS 2017c).

Together these categories comprise around 60 per cent of average weekly household expenditure on goods and services in Zones A and B and nationally.

Figure B.3 provides a breakdown of average price levels in remote areas by these expenditure categories, drawn from the Western Australia and Queensland indexes. The Commission has also augmented the data with product-specific datasets to help develop a more robust picture of cost-of-living differentials across Australia's largest household expense categories.

Food and groceries

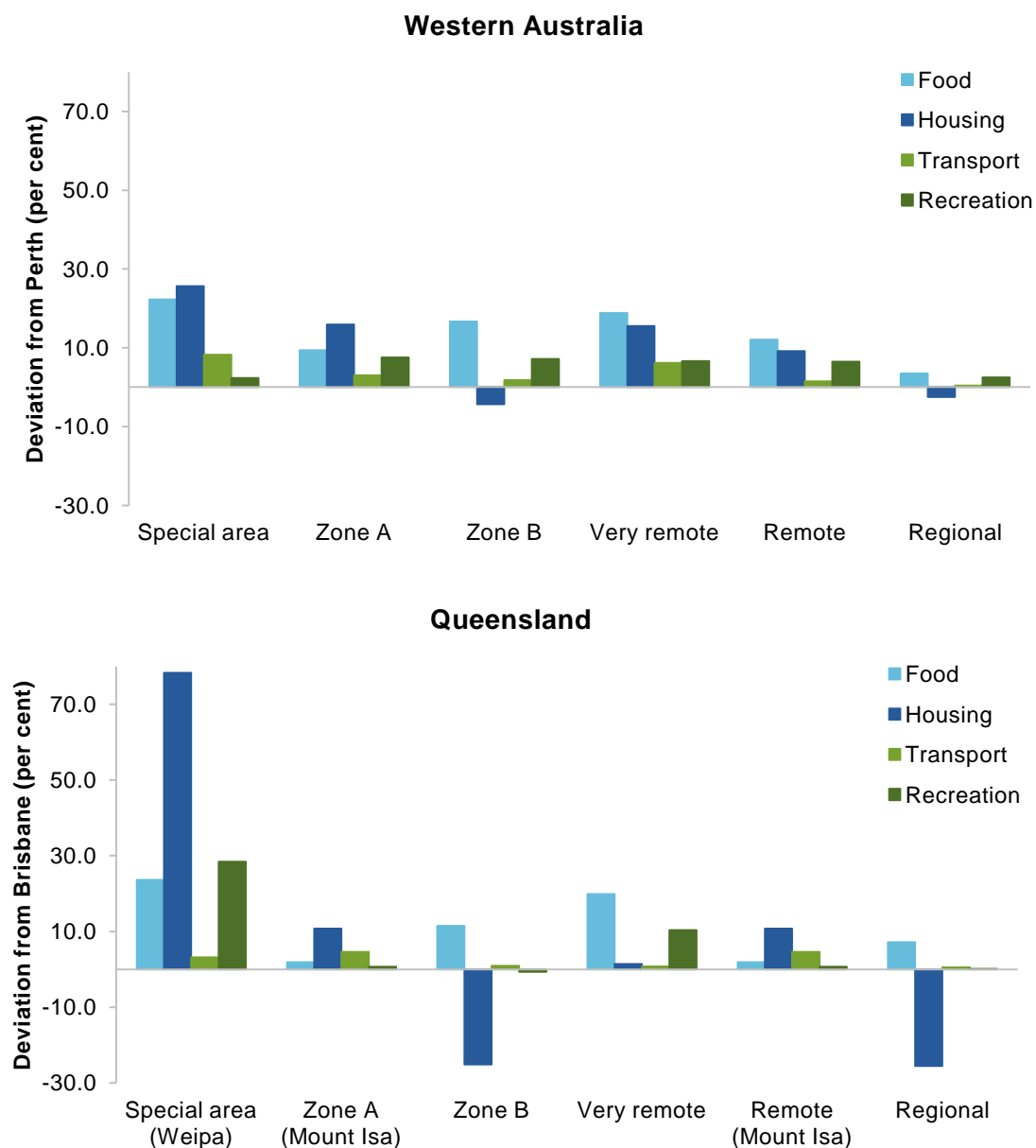
The Western Australia and Queensland regional price indexes measure the costs of various foods, non-alcoholic drinks, snacks, confectionary, dining out and takeaway food. Data from the indexes indicate that these costs were higher in each of the *remote*, *very remote*, special area, Zone A and Zone B communities surveyed than in their respective capitals. Average costs were particularly high in special area and *very remote* communities (figure B.3).

This is consistent with the results of a study by the Bureau of Infrastructure, Transport and Regional Economics, which found that grocery prices — prices of food, tobacco and a range of other non-food groceries such as cleaning products and personal care items — tend to be higher in more remote areas, with the exception of larger service centres such as Mount Isa (2014).

The Bureau also found that the presence of a major supermarket chain store had a substantial dampening effect on grocery prices. This is reinforced by supermarket grocery price survey data from CHOICE, which indicate that major supermarkets apply broadly uniform pricing across Australia (box B.2). Woolworths (pers. comm. 10 July 2019) has confirmed that it employs state-based pricing structures.

⁷² The figures listed show the range of average household consumption for a particular product which encompasses the mean averages for Zone A, Zone B and the nation.

Figure B.3 Breakdown of price levels in remote areas^{a,b,c}
 Cost of different categories of goods and services by zone and ABS remoteness area, Western Australia and Queensland regional price indexes



^a Western Australia prices were surveyed in 2017 and Queensland prices were surveyed in 2015. The indexes measure the deviation of price levels from the state's capital city. ^b Unweighted averages of observations are shown. In Queensland, there were three observations in the *very remote* category, two of which were also in Zone B and were of lower price levels than in Brisbane. ^c In Queensland, only one community was surveyed in each of the following categories: special area (Weipa), Zone A (Mount Isa) and *remote* (Mount Isa).

Sources: DPIRD (2017); QGSO (2016).

Box B.2 Major supermarket chains apply relatively uniform pricing across Australia

In March 2017, CHOICE conducted a survey of prices in 110 supermarkets — 32 Coles, 32 Woolworths, 26 Aldi and 20 IGA stores — in 33 locations across Australia. The locations were chosen to give good coverage of socio-economic status and geographic spread across the country. CHOICE surveyed supermarkets in clusters so that each store had local competition.

The full grocery basket consisted of 33 items. 28 items were packaged products, either leading brand or their supermarket brand/budget brand equivalents (including beef mince, chicken breast fillets and eggs). The other five items were fresh fruit and vegetables (apples, bananas, broccoli, carrots and potatoes).

The data indicate that price differences between metropolitan and regional Coles and Woolworths stores were, on average, within 1.5 per cent. This was true for three different grocery baskets (leading brand, supermarket brand and budget brand).

Source: CHOICE (2017).

The same pattern of food prices increasing with remoteness is evident in the Northern Territory. The Territory Government's Market Basket Survey shows that, in 2016, a food basket based on the average diet of Indigenous Australians was 27 per cent more expensive in remote stores than in a Darwin supermarket, and 19 per cent higher than the average of corner stores in regional centres (NT Health 2017). The effects of higher prices are partially mitigated in some remote Indigenous communities by customary food-collecting activities such as hunting, fishing and gathering. As noted by Biddle and Markham (2018):

... survey research in Fitzroy Crossing, Nulyu Nambiyu and Kowanyama in 2009 estimated that the replacement value of customary, collected food ranged from around \$18 per household per week in Fitzroy Crossing to around \$50 per household per week in Kowanyama (Jackson et al. 2014). Measured in terms of replacement value, customary activities provided between 13% and 23% of the food consumed in these communities.

However, these food-collecting activities have costs, such as purchasing and maintaining equipment, and it is not clear that they significantly offset the higher food prices in remote Indigenous communities.

In sum, the data considered by the Commission suggest grocery prices are higher in remote locations, though regional centres with chain supermarkets do not appear to have significantly higher grocery prices than metropolitan areas.

Housing

The Commission's analysis of housing prices has examined the data listed in table B.2.

Table B.2 Housing data remote coverage and listed expenses

<i>Data source</i>	<i>Provider</i>	<i>Remote observations^a</i>	<i>Housing costs covered</i>
Survey of Income and Housing	ABS	167	Mortgage, rent , utilities and insurance
2016 census data	ABS	239 090	Mortgage and rent (in discrete bands)
Household, Income and Labour Dynamics in Australia	Melbourne Institute	154	Mortgage, rent, utilities and insurance
Defence rent data	Department of Defence	179	Rent
Regional price indexes	Queensland and Western Australian governments	18	Rent and utilities

^a Based on count of dwellings for all datasets except the regional price indexes which are based on locations. Includes ABS remote and very remote categories.

The regional price indexes and Defence data point to higher housing costs in remote areas

The Queensland regional price index estimated housing costs by measuring median weekly rents for dwellings and the cost of electricity and other household fuels. The Western Australian regional price index estimated housing costs by measuring rents, rates and charges, utility costs, credit charges and insurance.

Both indexes show that housing costs are higher in remote communities than in their respective capital cities (figure B.3). This was particularly true for special area communities but also for Zone A, *very remote* and *remote* communities. However, housing costs in all Zone B communities and most *regional* communities were lower than those in the capital cities.

Similarly, using confidential housing rent data provided by the Department of Defence, the Commission estimated (after controlling for a number of factors⁷³) that rent in *remote* and *very remote* Australia is higher than in *major cities*, while rent in *inner* and *outer regional* Australia is lower than in *major cities*.

⁷³ Estimates are controlled for rank, type of building, building owner (for example, Defence Housing Australia), state, and number of bedrooms (using ordinary least squares regression).

Other evidence points to lower housing costs in remote areas

ABS census data, on the other hand, show that median weekly rents (a subset of housing costs) are significantly lower in *remote* and *very remote* Australia than elsewhere (figure B.4). These data do not control for differences in housing quality, which may differ in regional and remote areas.

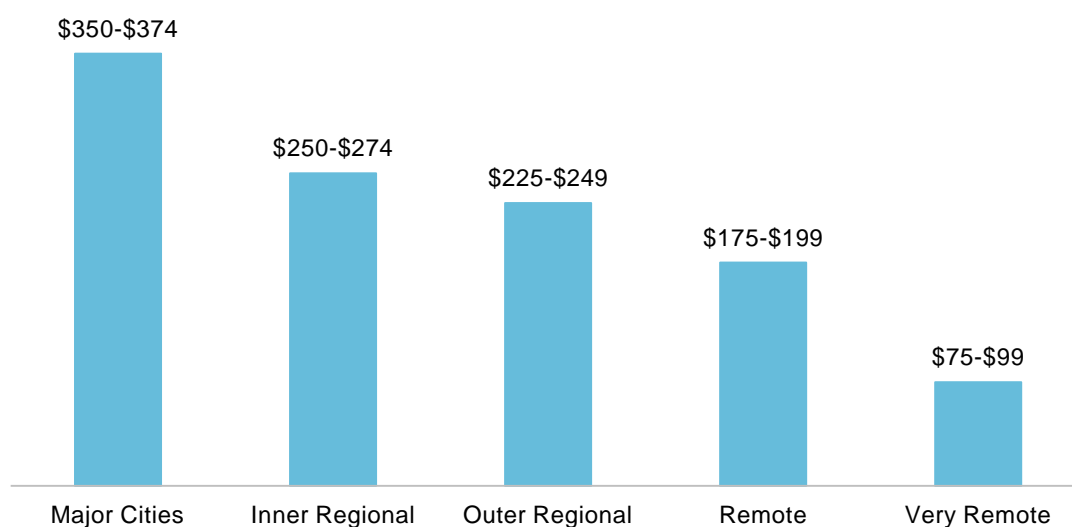
Unlike rental prices, mortgage expenditure does not decrease with remoteness (figure B.5), although living in a major city does increase expenditure. The divergence between rent and mortgage costs can be attributed to various factors, including geographical price discrimination for mortgages (ACCC 2018b) and increasing construction costs.

Although the various Census and price index data can be inconclusive in some areas, there are clear associations between price and remoteness in some cases. For example, Household, Income and Labour Dynamics in Australia survey data show that *remote* and *very remote* families with larger houses will typically pay less than they would have for a roughly equivalent house in a more metropolitan area (figure B.6).

The Commission is not satisfied that the sample size for smaller dwellings in *remote* and *very remote* locations is large enough to draw reliable inferences. However, the prevalence of homes with three or more bedrooms in *remote* and *very remote* locations, and clearer trends in the data, have led the Commission to form a preliminary conclusion that renting or buying larger homes is cheaper in *remote* and *very remote* areas than in less remote areas.

Figure B.4 **Median rent decreases with the degree of remoteness**

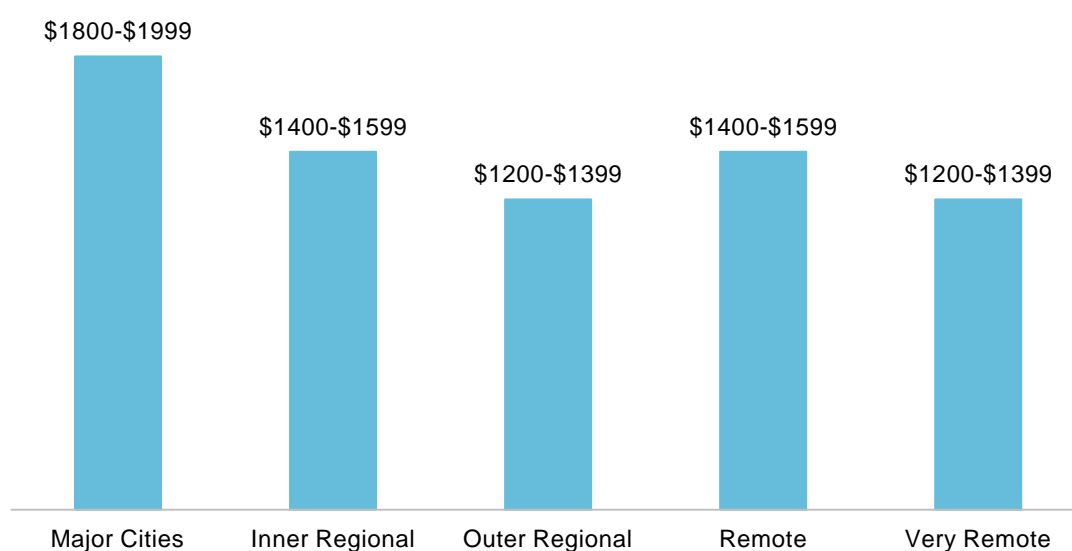
Median weekly rent by ABS remoteness area, 2016 census



Source: ABS Census Tablebuilder Pro (2016).

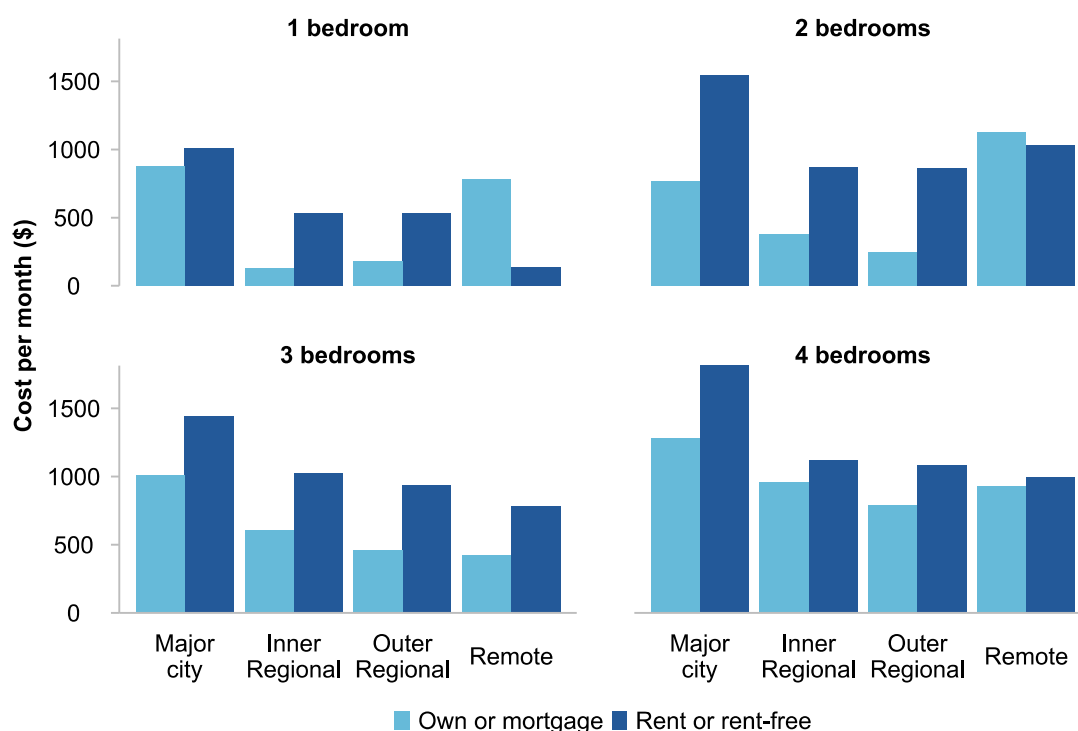
Figure B.5 **Mortgage repayments are broadly constant by degree of remoteness**

Median monthly mortgage repayments, 2016 census



Source: ABS Census TableBuilder Pro (2016).

Figure B.6 3 bedroom houses cost less by degree of remoteness^{a,b}
 Rent and mortgage payments in 2017, including repayment of principal where applicable, Household, Income and Labour Dynamics in Australia survey data



^a There was a very small sample of one and two bedroom houses in remote areas, and so the results should not be relied upon. ^b The remote classification includes both *remote* and *very remote* ABS classifications.
 Source: DSS and Melbourne Institute (2018).

Other considerations

Home insurance costs are not captured in the ABS Census data or in the housing costs category of the Queensland regional price index (but are included as housing costs in the Western Australian regional price index). Communities in northern Australia, including Queensland *regional* and Zone B communities such as Cairns and Townsville, face significantly higher home insurance premiums (excluding building insurance premiums) (box B.3), which increase their overall housing costs.

In addition, lower rents in *remote* areas can partly be attributed to the high reliance on subsidised ‘social housing’ (that is, rental housing provided by State and Territory governments and the community sector) in *remote* communities, and partly to housing assistance provided to employees under the fringe benefits tax remote area concessions (box B.4).

Box B.3 Home, contents and strata insurance in northern Australia

On 25 May 2017, the Australian Government directed the ACCC to conduct an inquiry into the supply of home, contents and strata insurance in northern Australia. The ACCC released the first interim report for the inquiry on 18 December 2018.

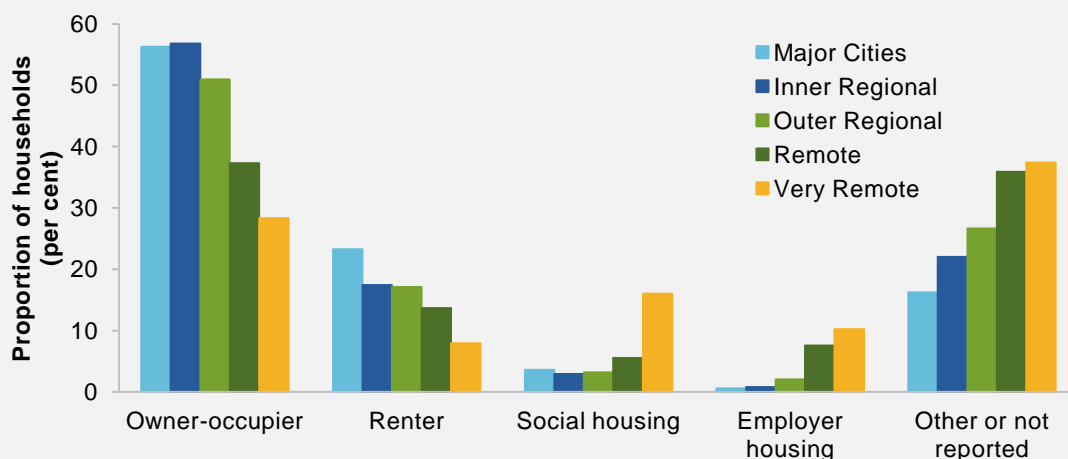
The first interim report found that insurance premiums are considerably higher in northern Australia. For example, combined home and contents insurance products in the north of Western Australia have the highest average annual premiums (\$3500), followed by those in north Queensland (\$2400) and the Northern Territory (\$2200). The average in the rest of Australia is \$1300.

The ACCC found that extreme weather in northern Australia, as well as the cost of servicing the area, is partly to blame for the high premiums faced by consumers. The ACCC also found that other factors have contributed — including moves by insurers to assess risk and set premiums at an individual address level, rather than pooling risks across regions.

Source: ACCC (2018a).

Box B.4 The prevalence of employer-provided and social housing in remote Australia

Both employer-provided and social housing are more prevalent in *remote* and *very remote* Australia than in other areas.



Social housing is particularly heavily relied on by Indigenous households in *remote* areas. In 2016, 55 per cent of Indigenous households in *remote* and *very remote* Australia were renting in social housing, compared to 5 per cent of non-Indigenous households in *remote* and *very remote* Australia and 17 per cent of Indigenous households in major cities.

Sources: ABS (2017b, 2019d); AIHW (2015).

Living in social or employer-provided housing is typically cheaper than renting on the private rental market. For example, one quarter of households in employer-provided housing outside of *major cities* or *inner regional* areas reported paying no rent for their accommodation in 2016 (ABS 2017a). Furthermore, in 2017-18, households in government-provided social

housing outside of *major cities* reported paying an average of \$147 each week for housing, while private renters reported paying an average of \$315 each week (ABS 2019d). However, both social and private renters pay approximately 20 per cent of their income towards rent, reflecting the lower incomes of households relying on social housing.

Overall, the Commission has found some evidence of housing costs being higher in the remote communities of Queensland and Western Australia than in their respective capital cities. However, the regional price indexes and other sources of housing cost data may not be comparing like with like. The quality of a house, its size, condition and the land it sits on will vary. This means that differences in the composition of the housing stock across areas will bear on average prices. We found, for instance, that large build formats (like three bedroom houses) were cheaper in remote areas relative to capital cities. The Commission intends to undertake further analysis of housing costs for the final report.

Transport

The Western Australia and Queensland regional price indexes estimated transport costs by measuring the costs of motor vehicles, fuel, parts and assorted charges, with the Queensland index also including taxi fares and roadside assistance membership.

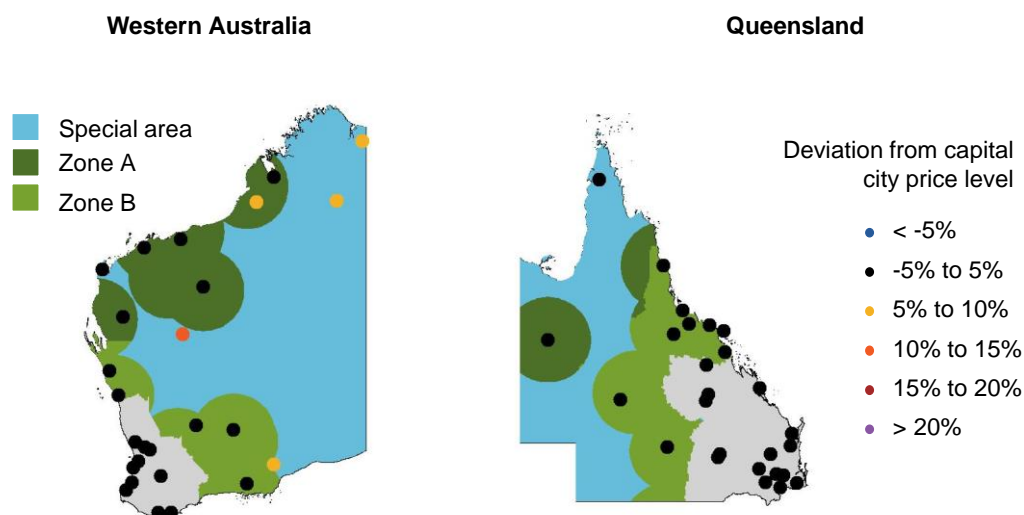
The regional price indexes are imperfect measures of transport costs in remote locations, as both are based on capital city travel patterns.⁷⁴ Travel patterns in remote and urban centres are sufficiently different that comparing like-for-like prices may not be a realistic measure of relative transport costs. For example, Australians living in cities may be more reliant on public transport, while Australians in remote areas may not even be served by public transport networks. Regional price indexes measure prices as if all Australians will consume transport services in the same way, but Australians in remote areas are more reliant on air and road transport, as discussed below.

That said, the indexes indicate that measured transport costs are at least as high in remote areas as they are in capital cities, but generally not significantly higher (figures B.3 and B.7):

- In Queensland, measured transport costs in every community surveyed were within 5 per cent of the cost in Brisbane.
- In Western Australia, the mean of the measured cost of transportation increased with remoteness; however, all but one of the communities surveyed had transport costs within 10 per cent of those in Perth.

⁷⁴ Both regional price indexes are calibrated with ABS CPI consumption weights. All ABS CPI data is based on capital cities.

Figure B.7 **Transport costs in the zones, from Western Australian and Queensland regional price indexes**



Sources: DPIRD (2017); QGSO (2016).

Regional airfares

As noted, the regional price indexes do not include what can be a significant cost of living in regional and remote Australia — the cost of regional airfares. The Western Australian Legislative Assembly Economics and Industry Standing Committee said in its report on regional airfare prices in Western Australia (2017):

In the regions, air travel is not a luxury – it is an essential service, akin to buses or trains in the metropolitan areas. It sustains communities, provides links to families and friends, facilitates economic activity and affects people’s perceptions about the ‘liveability’ of regional centres.

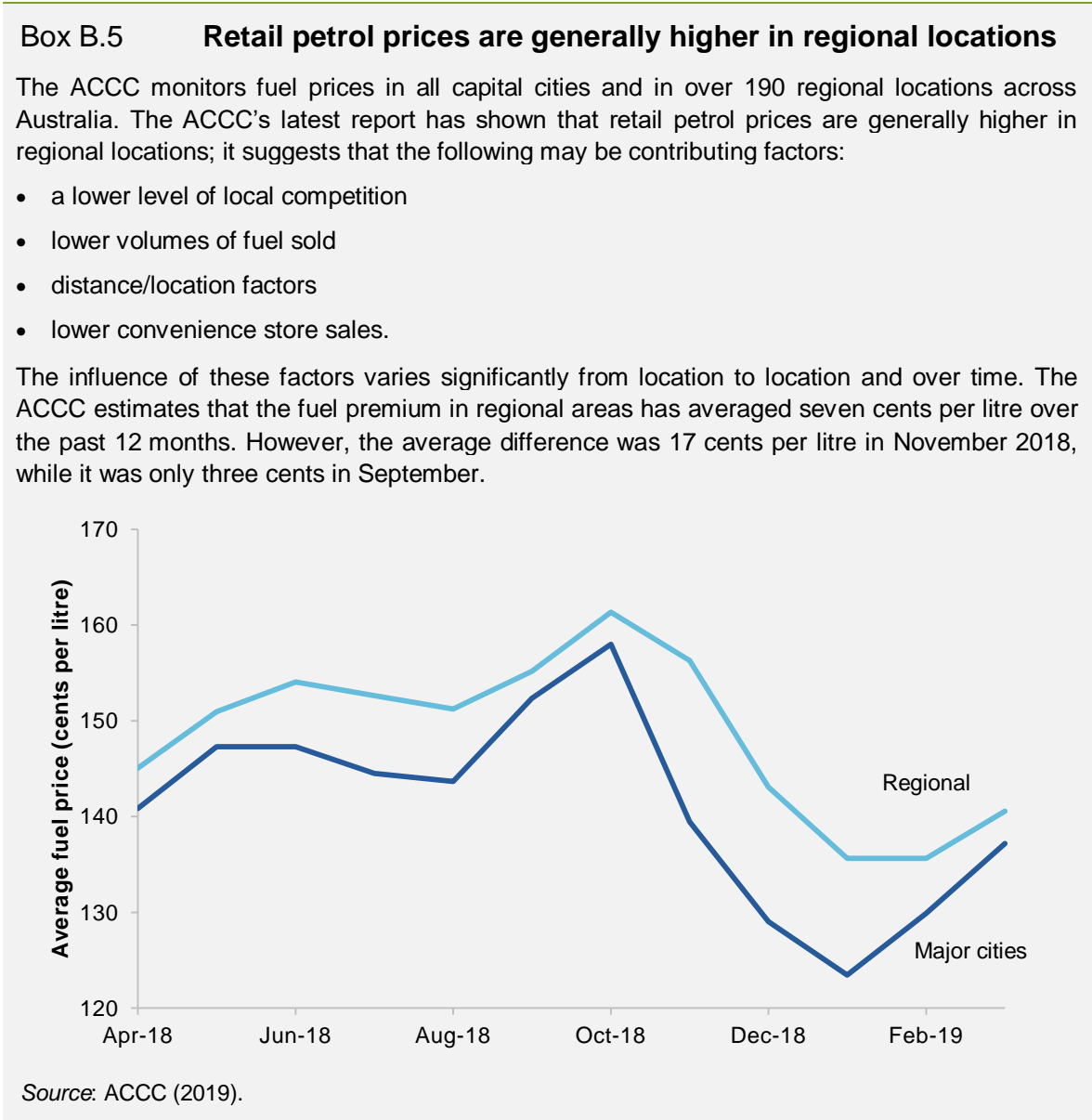
The Australian Senate Rural and Regional Affairs and Transport References Committee report on the operation, regulation and funding of air route service delivery to rural, regional and remote communities (2019, p. 169) found ‘overwhelming evidence’ that the high price of airfares in rural, regional and remote areas has a ‘direct and detrimental effect on the lived experience of residents of these areas’.

Road transport

The Commission heard during consultations that one of the attractions of living in regional and remote Australia is the lack of traffic and short commute times. By contrast, the residents of cities are more likely to have longer commutes, to spend time in traffic and to spend more money on public transport. Household, Income and Labour Dynamics in Australia survey

data show that mean daily commute times are higher in mainland Australian capital cities than in other locations (Wilkins et al. 2019, p. 79).

That said, many residents of regional and remote Australia will have cause to drive long distances on a regular basis. Moreover, residents of remote areas face additional car maintenance and fuel costs when they have to drive long distances, sometimes on poor-quality or unsealed roads, to access particular services (Katherine Trigg, sub. 17, p. 1). In addition, the ACCC’s quarterly retail petrol price monitoring finds that fuel costs are generally higher in regional locations (box B.5).



Freight

As noted in multiple submissions, prices for goods incorporate the cost of transport (including remote freight costs), which can substantially increase prices (Hits Radio, sub. 11, p. 1). Higher costs of transport can affect both businesses with physical stock purchased from major cities and individuals who purchase delivered goods (perhaps online or by telephone). For example, for a business to freight 50 kg worth of goods from Brisbane by air to:

- Toowoomba is \$112.75 (106 km)
- Mt. Isa is \$551.65 (1564 km) (Regional Express 2019).

A business would need to recoup these costs, passing higher freight expenses onto consumers through higher prices.

However, the Commission notes that Australia Post's statutory community service obligation means people in remote locations will typically pay the same amount for Australia Post services. Deloitte have found that this cross-subsidisation provides substantial benefit for remote Australians (Deloitte Access Economics 2018b). People in remote communities use Australia Post services more intensively, sometimes because it is the only courier service available. This limits residents to online retailers which use Australia Post, and does not benefit businesses requiring bulk freight.

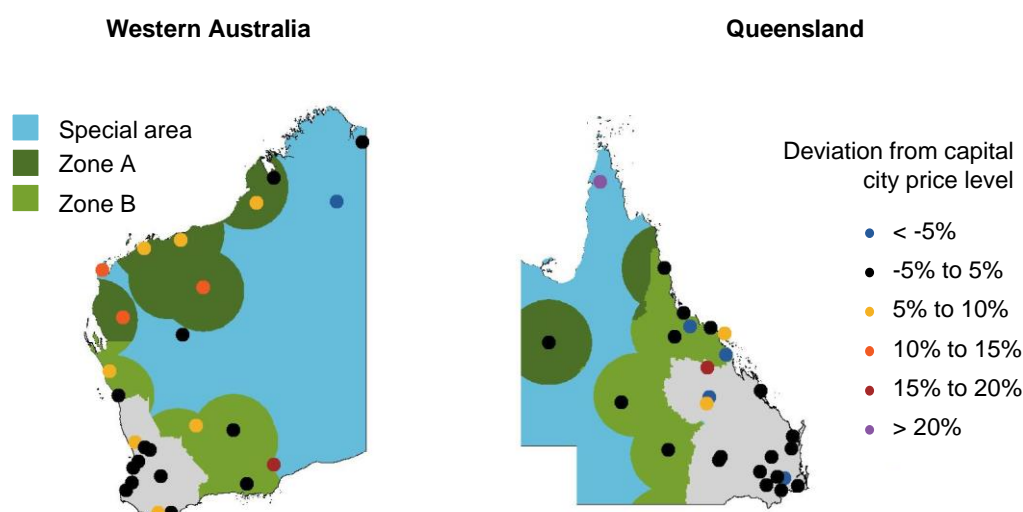
Recreation

The Western Australia and Queensland regional price indexes estimated costs in the 'recreation' category by measuring the costs of audio, visual and computing equipment, newspapers and magazines, sporting goods and services, toys, and pets; the Queensland index also includes books, and holiday travel and accommodation costs.

Evidence on the cost of recreation in the regional price indexes is mixed, making it difficult to draw clear conclusions (figure B.8). For example:

- half of the special area communities in Western Australia had lower recreation costs than Perth, while the other half had higher recreation costs, with a mean cost 2.4 per cent higher than in Perth
- Weipa, the only special area community surveyed in Queensland, had recreation costs that were 28.4 per cent higher than in Brisbane.

Figure B.8 Recreation costs in the zones, from Western Australian and Queensland regional price indexes



Sources: DPIRD (2017); QGSO (2016).

B.4 The cost of living in Darwin

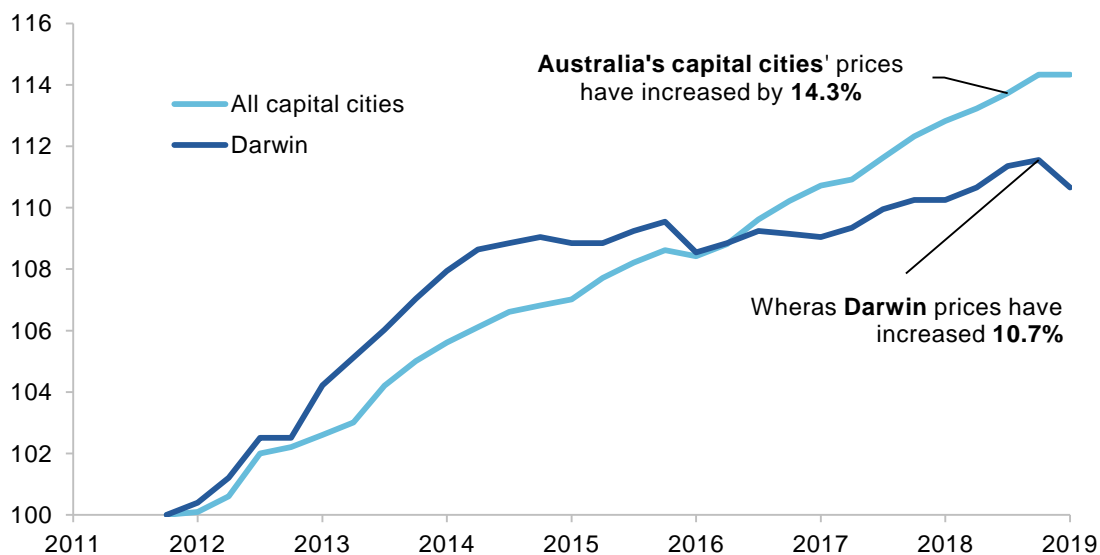
Darwin is home to about 12 per cent of ZTO claimants nationally (chapter 4) and 23 per cent of RAA recipients (chapter 6). The following section explores ABS CPI data, cost of living research by Phillips et al. (2012), and ABS Survey of Income and Housing data to clarify how much Darwin residents pay relative to residents of other capital cities.

Analysis of CPI data and product bundle comparisons show that prices in Darwin for most common household purchases are roughly on par with those in other capital cities. Phillips et al.(2012) compared the cost of a standard basket of goods and services in each of Australia's capital cities in December 2011. This analysis indicated that Sydney was the most expensive capital city to live in, followed by Canberra and Darwin. However, while Darwin may have been more expensive in 2011, prices in Darwin have since grown more slowly than prices in the other capital cities (figure B.9).

Data submitted by consumers to the Numbeo website also suggest that the cost of living in Darwin today is not high relative to that in other capitals. Using Numbeo's standard basket of goods, the data suggest that Darwin's cost of living is the third cheapest across Australia's capital cities, after Adelaide and Hobart (figure B.10). Numbeo's methodology and data do not have the same rigour as other sources, such as the analysis by Phillips et al. (2012) and ABS data. However, the inference that the cost of living in Darwin is broadly comparable with that in other Australian capital cities aligns with results from the other data considered by the Commission.

Figure B.9 Darwin has had lower levels of inflation in recent years

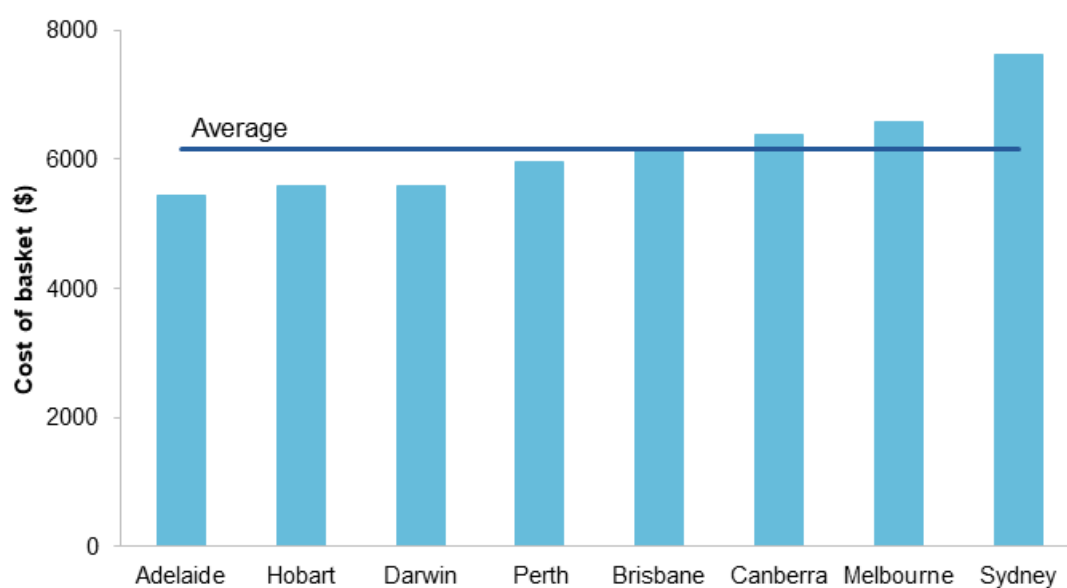
December 2011 rebased consumer price index values



Source: ABS (2019a).

Figure B.10 Consumer-contributed data suggest Darwin prices are below the average of capital cities^a

Price of Numbeo reference basket of goods



^a The blue line indicates the unweighted mean of capital city observations.

Source: Numbeo (2019).

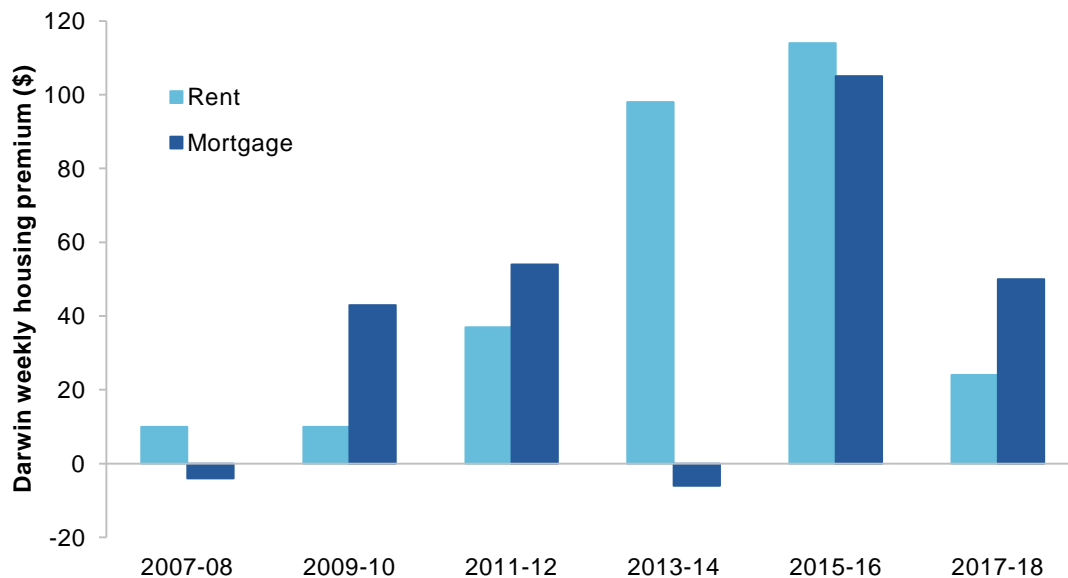
A feature of living costs in Darwin is that housing costs tend to fluctuate more there than in other capital cities. On average, Darwin residents have paid more for housing than the average of all capital cities since 2010, though higher expenditure seems to be moderating (figure B.11). Information from ABS surveys shows that both renters and home owners with a mortgage pay more per week than the median of all capital cities.

The historically higher cost of housing in Darwin may indicate higher average incomes for renters in Darwin and, consequently, higher willingness to pay. In 2017-18, the average Darwin renter spent 15.6 per cent of their income on rent, whereas the average renter in an Australian capital city spent 20.4 per cent (ABS 2019b). By contrast, Darwin mortgage holders spent 16 per cent of income on housing costs, the average across all capital cities.

Cyclical forces linked to the Ichthys gas field development are another possible explanation for peaking rent premiums in Darwin. While the gas field is located 890 km from Darwin, Darwin currently provides processing and liquefaction facilities. The project employed a peak of 30 000 people in 2015 (Inpex 2016), increasing housing demand and putting upward pressure on housing costs at the time.

Figure B.11 Higher housing expenditure in Darwin^{a,b}

Darwin median weekly housing expenditure minus all capital cities median weekly housing expenditure



^a Nominal; as reported. ^b This does not necessarily mean that the cost of supplying housing — that is, the cost of land, construction and/or leasing — is higher in Darwin. Higher expenditure on housing may also be due to greater demand for housing or more households opting for more expensive housing.

Source: ABS Housing Occupancy and Costs (various).

C Use and value of FBT remote area concessions

This appendix includes further details on the estimated use of fringe benefits tax (FBT) remote area concessions (and associated tax savings) presented in chapters 7 and 8. In particular, it presents estimates on:

- the use and tax savings of both the FBT remote area exemption for employer-provided housing and the partial concessions on employee-sourced housing, where they operate as the usual place of residence (section C.1)
- the use of fly-in fly-out (FIFO) and drive-in drive-out (DIDO) arrangements (section C.2)
- the use and tax savings of concessions on remote area residential fuel, meals for primary production employees, and holiday transport provided by employers in remote areas. (section C.3).

The Commission will seek to further validate and improve the accuracy of these estimates for the final report. Information Request 2 invites feedback on estimates of the utilisation of the FBT concessions, including whether the assumptions underlying those estimates are plausible and whether there are other data that could assist in gauging utilisation.

Terminology in this appendix follows that used throughout the report. A refresher on key terms is provided in box C.1.

Box C.1 Remote area terminology

‘FBT remote area’ describes the parts of Australia that are classified as ‘remote’ for FBT purposes. This includes both the ordinary FBT remote area (which applies to all employers) and additional areas around several regional centres (for ‘certain regional employers’ that provide housing). The FBT remote area covers the vast majority of Australia’s landmass.

‘Remote area’ describes the parts of Australia classified as *remote* under the Australian Statistical Geography Standard (ABS remoteness areas). This area is smaller than the FBT remote area.

‘Very remote area’ describes the parts of Australia classified as *very remote* under the Australian Statistical Geography Standard (ABS remoteness areas).

C.1 Remote area housing as usual place of residence

Determining the extent to which the FBT remote area concessions for housing (as usual place of residence) are used means confronting significant data issues. Employers are not required to report exempt goods and services to the ATO, and the expense is not discernible from employers' other expenses. Where partial concessions are used, reporting is insufficiently detailed to separate out the remote area concessions from other concessions.

In spite of these challenges, the Commission has attempted to shed some light on the use of these housing concessions (box C.2). Results were validated, in part, by responses to a questionnaire about the utilisation of the concessions (box C.3).

Box C.2 Identifying the industry providing housing

The Commission estimated the number of employer-provided dwellings using microdata from the 2016 ABS Census of Population and Housing. The industry of employment of the census household reference person was assumed to be the industry providing housing. Usually, the reference person was the person who identified themselves as 'person 1' on the household census form, although in some cases the ABS chose a more appropriate person during coding (for instance, choosing an adult when a child was listed as person 1). Where there were multiple households in a single dwelling (which was true in less than 1 per cent of cases) the reference person was randomly selected.

The FBT remote area contains the ordinary FBT remote area (which applies to all employers) and additional areas around several regional centres (for 'certain regional employers' providing housing). These 'certain regional employers' are: public hospitals; hospitals carried on by a not-for-profit society; government bodies where the duties of employment are exclusively performed in, or in connection with, a public hospital or a not-for-profit hospital; charitable institutions; employers who provides public ambulance services or services that support those services; and government bodies where the employee's duties are performed in a police service.

The 'certain regional employers' categories align closely, but not perfectly, with the Australian and New Zealand Standard Industrial Classification (ANZSIC) industry codes used in Census data. A dwelling was assumed to be provided by a 'certain regional employer' where the industry of employment of the household reference person was either Public Order, Safety and Regulatory Services (ANZSIC 2-digit code 77); Hospitals (ANZSIC 2-digit code 84); or Medical and Other Health Care Services (ANZSIC 2-digit code 85). Charitable institutions were not included, as they could not be differentiated from large non-eligible employers (such as child care services) at the ANZSIC 2-digit level.

Source: ABS (Census of Population and Housing, 2016, Cat. no. 2900.0).

Number and characteristics of employer-provided remote area dwellings

About 5 per cent of all homes (some 52 100 dwellings) located in the FBT remote area were provided by an employer — either the Australian, State or Territory government (about 15 000 dwellings) or a private employer (about 37 100 dwellings) (Commission calculations based on ABS Census of Population and Housing Microdata, 2016). About 1300 of these employer-provided dwellings were provided by ‘certain regional employers’ in the relevant parts of the FBT remote area (box C.2).

Box C.3 Questionnaire on FBT concession use

Submissions and consultations showed that the FBT remote area concessions were an important part of the tax system, especially for employers in the mining and agriculture sectors and for some local governments. The Commission issued a questionnaire to these sectors to inform its estimates of utilisation and tax savings, and as robustness check for its assumptions underlying these estimates.

The questions covered basic details: the number of employees receiving remote area housing, where dwellings were located and why they were provided; and the number of employees receiving other remote benefits such as residential fuel or an allowance for holiday transport. In total, the Commission received 67 responses.

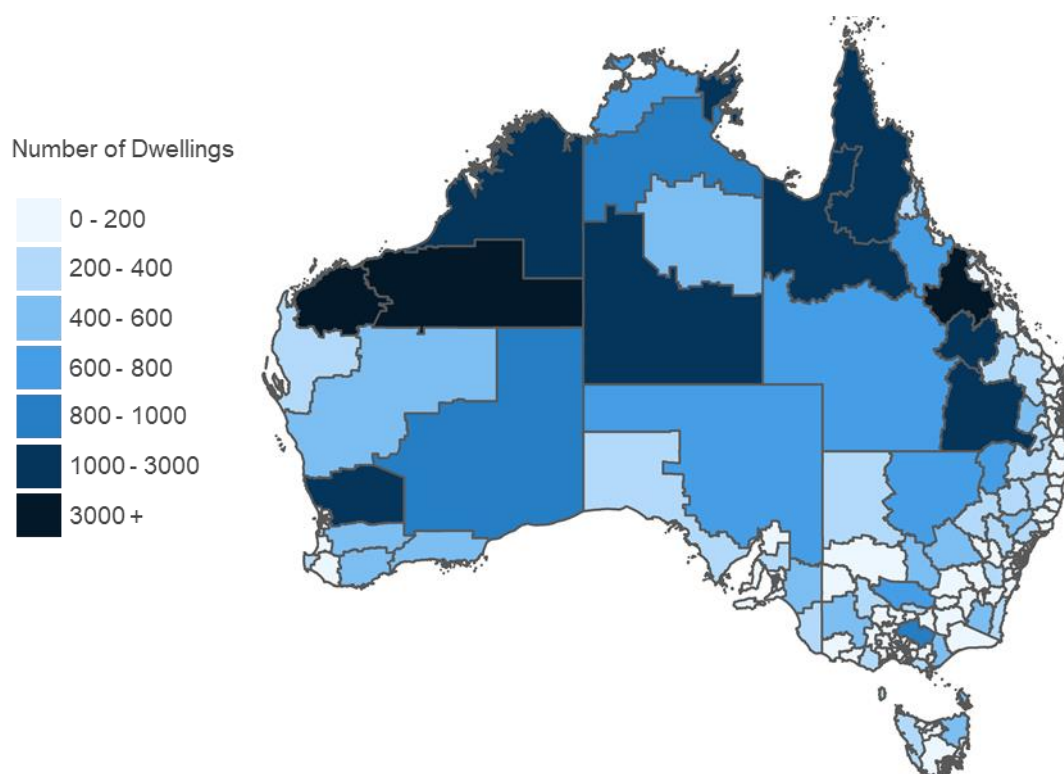
Just over half of all employer-provided dwellings (about 58 per cent) were located outside of major cities (Commission calculations based on ABS Census of Population and Housing TableBuilder Pro, 2016). Of these, most were located in *remote* or *very remote* areas (figure C.1).

In areas with high numbers of FIFO workers (such as the East and West Pilbara), it is likely that many employer-provided dwellings are used for temporary accommodation. In areas where tourism, farming and public service agencies are concentrated (such as the Kimberley, Far North Queensland and the greater Alice Springs area), employer-provided housing is more likely to be an employee’s usual place of residence — although some will still be used as temporary accommodation. Nearly two-thirds of all employer-provided dwellings in the FBT remote area were in one of the top 20 locations (table C.1).

About three quarters of employer-provided dwellings had three or more bedrooms (table C.2). Dwellings provided by government employers tended to have a slightly higher number of bedrooms (with four bedrooms the most common) than dwellings provided by private sector employers (with three bedrooms the most common).

In the vast majority of regions, more than half of all employer-provided dwellings were detached (table C.3). In some parts of the country, other types of dwellings were also common. For example, in the Kimberley, nearly 20 per cent of employer-provided dwellings were non-standard structures such as caravans, cabins or housing attached to shops.

Figure C.1 Most employer-provided dwellings are in a remote area
Government or private employer dwellings by ABS statistical area level 3 in the FBT remote area



Source: Commission calculations based on ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001).

Table C.1 Top 20 locations in the FBT remote area for employer-provided dwellings
Government-employer and other-employer housing, by SA3

Location	Number	Location	Number
West Pilbara (WA)	5 580	Alice Springs (NT)	1 180
Bowen Basin – North (Qld)	3 180	Goldfields (WA)	880
East Pilbara (WA)	3 140	Katherine (NT)	820
Central Highlands (Qld)	1 920	Upper Goulburn Valley (Vic)	820
Kimberley (WA)	1 600	Bourke - Cobar – Coonamble (NSW)	760
Far North (Qld)	1 520	Outback – South (Qld)	740
Darling Downs (West) – Maranoa (Qld)	1 420	Daly - Tiwi - West Arnhem (NT)	720
Outback – North (Qld)	1 420	Upper Murray exc. Albury (NSW)	700
Wheat Belt – North (WA)	1 220	Moree – Narrabri (NSW)	660
East Arnhem (NT)	1 200	Charters Towers - Ayr – Ingham (Qld)	640

Source: Commission calculations based on ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001).

Table C.2 Employer-provided dwellings, by number of bedrooms

Proportion of dwellings,^a selected locations

<i>Location</i>	<i>Employer</i>	<i>No or one bedroom (per cent)</i>	<i>Two Bedroom (per cent)</i>	<i>Three Bedroom (per cent)</i>	<i>Four or more bedrooms (per cent)</i>
West Pilbara (WA)	Government	4	13	43	40
West Pilbara (WA)	Private	3	11	49	37
Bowen Basin – North (Qld)	Government	3	23	52	24
Bowen Basin – North (Qld)	Private	7	10	49	38
East Pilbara (WA)	Government	4	19	37	40
East Pilbara (WA)	Private	3	15	44	38
Kimberley (WA)	Government	4	21	35	39
Kimberley (WA)	Private	17	24	37	19
Australia	Government	5	15	37	42
Australia	Private	11	23	41	27

^a Row totals may not sum to 100 due to rounding.

Source: Commission calculations based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0).

Table C.3 Employer-provided dwellings, by structure

Proportion of dwellings,^a selected locations

<i>Location</i>	<i>Employer</i>	<i>Separate house (per cent)</i>	<i>Semi-detached (per cent)</i>	<i>Flat (per cent)</i>	<i>Other^b (per cent)</i>
West Pilbara (WA)	Government	84	11	3	2
West Pilbara (WA)	Private	86	8	1	5
Bowen Basin – North (Qld)	Government	83	10	4	1
Bowen Basin – North (Qld)	Private	74	15	1	0
East Pilbara (WA)	Government	79	9	11	2
East Pilbara (WA)	Private	82	4	11	3
Kimberley (WA)	Government	64	9	7	19
Kimberley (WA)	Private	73	18	6	4
Australia	Government	67	11	16	5
Australia	Private	74	13	10	2

^a Row totals may not sum to 100 due to rounding. ^b Includes caravans, tents and other improvised shelters, houses and flats attached to shops, cabins and houseboats.

Source: Commission calculations based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0).

Provision of employer-provided housing by industry

The four industries with the most employer-provided housing were the Agriculture, Forestry and Fishing; Mining; Education and Training; and Public Administration and Safety industries. Commission calculations show that over half of all employer-provided dwellings located in the FBT remote area were provided by employers in these four industries (table C.4).

Table C.4 Employer-provided dwellings in FBT remote area, by industry

Proportion of all employer-provided dwellings in the FBT remote area where the reference person was in the listed industry

<i>Industry</i>	<i>Number</i>	<i>Share of total (per cent)</i>
Agriculture, Forestry and Fishing	9 080	17
Mining	7 540	14
Education and Training	6 160	12
Public Administration and Safety	6 380	12
Health Care and Social Assistance	5 460	10
Accommodation and Food Services	3 440	7
Retail Trade	2 660	5
Other Services	2 380	5
Construction	1 620	3
Manufacturing	1 580	3
Transport, Postal and Warehousing	1 340	3
Professional, Scientific and Technical Services	1 020	2
Administrative and Support Services	880	2
Arts and Recreation Services	680	1
Wholesale Trade	620	1
Electricity, Gas, Water and Waste Services	460	1
Other	440	1
Rental, Hiring and Real Estate Services	400	1

Source: Commission calculations based on ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001).

The market value of employer-provided housing

Estimating the tax savings from exemptions for employer-provided housing requires data on the market value of these dwellings.

The average rent reported in 2016 by people in employer-provided housing was about \$200 per week (for government employees) and about \$240 per week (for all other employees). Excluding *major cities* and *inner regional* areas (in order to approximate the

FBT remote area), the average rent reported by a person in employer-provided housing was \$160 per week (for government employees) or \$125 per week (for all other employees).

These averages are for rent *paid* for housing, which likely underestimates market rent. About 10 per cent of households (about 14 per cent, outside of *major cities* and *inner regional* areas) in housing provided by a government employer reported paying no rent, and 16 per cent of households (about 27 per cent, outside of *major cities* and *inner regional* areas) in housing provided by other employers reported paying no rent (Commission estimates based on 2016 ABS Census data, TableBuilderPro). Further, some of those who do pay rent will receive a rent discount from their employer.

The Commission's view is that a plausible range for the average market value of employer-provided housing in the FBT remote area is \$125 to \$200 per week (\$6500 to \$10 400 per year). This covers the averages paid by people in both government employer and other employer-provided housing, excluding those in *major cities* and *inner regional* areas. It also covers the median rents paid on *all* housing (not just housing provided by an employer) in the top five areas with the highest number of employer-provided dwellings (except the Kimberley) (table C.5).

Table C.5 Distribution of rents on all housing in areas with highest number of employer-provided dwellings^a

Weekly rent paid

	25 th percentile	Median	75 th percentile
West Pilbara (WA)	37.5	187.5	387.5
Bowen Basin – North (Qld)	37.5	162.5	262.5
East Pilbara (WA)	112.5	187.5	362.5
Kimberley (WA)	112.5	212.5	387.5
Central Highlands (Qld)	112.5	187.5	287.5
Alice Springs (NT)	87.5	237.5	412.5
Far North (Qld)	87.5	137.5	212.5
Outback North (Qld)	137.5	212.5	362.5
West Darling Downs (Qld)	162.5	212.5	287.5
East Arnhem (Qld)	37.5	87.5	162.5

^a Housing where rent non-stated, not available or where no rent is charged are excluded.

Source: Commission calculations based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0).

Income distribution of people in employer-provided housing

Individual tax savings from the housing exemption depend on the employee's marginal income tax rate. About half the reference persons in employer-provided housing have an income of more than \$78 000 per year, and a third have an income of more than \$104 000 per year (table C.6).

Table C.6 Income distribution of people in employer-provided housing^{a,b}

Employer-provided dwellings in FBT remote area, weekly total income of reference person

<i>Weekly income (yearly equivalent)</i>	<i>Number</i>	<i>Per cent</i>
\$1-\$149 (\$1-\$7 799)	200	< 1
\$150-\$299 (\$7 800-\$15 599)	200	< 1
\$300-\$399 (\$15 600-\$20 799)	780	2
\$400-\$499 (\$20 800-\$25 999)	920	3
\$500-\$649 (\$26 000-\$33 799)	1 820	5
\$650-\$799 (\$33 800-\$41 599)	2 300	7
\$800-\$999 (\$41 600-\$51 999)	3 520	11
\$1 000-\$1 249 (\$52 000-\$64 999)	4 600	14
\$1 250-\$1 499 (\$65 000-\$77 999)	3 360	10
\$1 500-\$1 749 (\$78 000-\$90 999)	3 240	10
\$1 750-\$1 999 (\$91 000-\$103 999)	2 880	9
\$2 000-\$2 999 (\$104 000-\$155 999)	6 240	19
\$3 000 or more (\$156 000 or more)	3 460	10

^a Housing is assumed to be provided by the employer of the household reference person. Where there are multiple households in a dwelling (less than 1 per cent of cases) the reference person was chosen at random.

^b Weekly salaries are based on the total personal income the reference person usually receives.

Source: Commission calculations based on ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001).

FBT savings from the remote area housing concessions

The Commission estimates that total FBT revenue forgone due to the exemption for employer-provided housing (as usual place of residence) was between \$210 million and \$430 million (table C.7). About \$10 million to \$50 million of this is estimated to accrue in the Pilbara (table C.8). Changing to a 50 per cent concession would exactly halve these estimates.

Table C.7 FBT savings from the exemption for employer-provided housing (as usual place of residence)

'Morning-after analysis'^a of the status quo, 2016-17

	<i>Exemption for housing (as usual place of residence)</i>		<i>50 per cent concession on housing (as usual place of residence)</i>	
Number of employer-provided dwellings in FBT remote area				
	High	Low	High	Low
Total number of dwellings	50 800	50 800		
Total eligible dwellings in area for 'certain regional employers'	1 300	1 300	Same as exemption	
Total employer-provided dwellings^b	52 100	52 100		
Number of employer-provided dwellings used for FIFO and DIDO workers				
Number of FIFO and DIDO workers	70 900	51 100		
Proportion of year spent on job site ^c	0.44	0.44		
Number of workers per dwelling	2	4	Same as exemption	
Total number of FIFO and DIDO dwellings	15 600	5 600		
Number of employer-provided dwellings for usual place of residence				
Number of employer-provided dwellings	46 500	36 500	Same as exemption	
	(minus low FIFO estimate)	(minus high FIFO estimate)		
FBT saving on employer-provided housing				
Average yearly rent	10 400	6 500	10 400	6 500
FBT liability	0	0	4 610	2 880
FBT saving from using concession	9 220	5 760	4 610	2 880
Static estimate of FBT forgone	430 million	210 million	215 million	105 million

^a Morning-after analysis considers the effects of policy change in the absence of a behavioural response. It is sometimes known as static microsimulation analysis. ^b Where housing is provided as usual place of residence in the FBT remote area, it is assumed that the employer claims the FBT exemption. ^c Assuming two weeks on and two weeks off, plus six weeks' annual and sick leave a year.

Source: Commission calculations based on ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001; *Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0).

These estimates of FBT revenue forgone are based on morning-after analysis of the status quo. They address the question of what the FBT liability of employers would be if the concessions suddenly ceased to exist; however, the analysis does not take into account how employers would change behaviour in response. In practice, employers could take a range of actions: they could absorb the tax increase; cease to provide housing but increase salary

and wages; continue to provide housing but reduce salary and wages, or cease their operations. These behavioural changes would likely lower the amount of income tax and company tax received by the government, and would in turn lower tax savings from the FBT concessions.

Table C.8 FBT savings from the housing exemption in the Pilbara
East and West Pilbara

	High	Low
Total employer-provided dwellings	8 720	8 720
Number of employer-provided dwellings used for FIFO and DIDO workers		
Number of FIFO and DIDO workers ^a	29 670	28 800
Proportion of year spent on job site ^b	0.44	0.44
Number of workers per dwelling	2	4
Total number FIFO and DIDO dwellings	6 530	3 170
Number of employer-provided dwellings (as usual place of residence)		
Number of employer-provided dwellings	5 550	2 190
Average yearly rent ^c	9 750	5 850
FBT liability	0	0
Tax savings from using the exemption	50 million	10 million

^a High FIFO and DIDO estimate based on 250 km between usual place of residence and place of work. Low estimate based on 500 km between usual place of residence and place of work. ^b Assuming two weeks on and two weeks off, plus six weeks' annual and sick leave a year. ^c Based on median and 25th percentile rents of all dwellings in East Pilbara.

Source: Commission calculations based on ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001; *Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0).

Rents paid by employees in employer-provided dwellings are assumed to be fully salary packaged — that is, paid out of pre-tax income. This means that the market value of employer-provided housing is not reduced by 'recipient rent' (ATO 2019a). The assumption is equivalent to saying that employers and employees minimise their tax to the greatest extent possible, as salary packaging any employee rent is necessary to obtain the full tax saving from the FBT concessions.

About 10 per cent of respondents to the questionnaire distributed to employers in the agriculture sector (box C.3) indicated that they did not claim FBT concessions on the housing they provide, or were unaware of them, despite being in the FBT remote area. The Commission anticipates that this is the upper limit of non-claimants — data from other industries (such as mining and local government) show that exemptions are claimed in nearly

100 per cent of cases. For simplicity, it is assumed that employers always claim the FBT exemption on housing where it is available.

FBT savings from employee-sourced housing

Partial concessions on employee-sourced housing apply to financial assistance provided by an employer towards housing costs incurred by an employee. This includes assistance with rent or mortgage payments, the provision of loans to employees, the provision of land to build on, or payments for option fees or repurchase consideration payments related to buyback specifications under home ownership schemes.

The Commission has not estimated the cost and use of the partial concessions on employee-sourced housing, as data on these partial concessions are limited. While the ABS Census data can be used to identify dwellings with a private landlord, they cannot be used to differentiate between people in regular rental housing and those in dwellings who also receive financial assistance from their employer. Moreover, employee-sourced housing is an ‘excluded fringe benefit’ that is not required to be reported to the ATO (despite still being subject to FBT), making it difficult to obtain any information from reported FBT values.

Nevertheless, some inferences can be made about the use of this partial concession. Responses to the Commission’s questionnaire indicated low levels of assistance with employee-sourced housing (box C.3). While assistance with employee-sourced housing was provided by all three industries targeted by the questionnaire (mining, agriculture, and local government entities), it was most common in the mining sector. Assistance with employee-sourced housing was also less frequent than employer provided housing in most instances, except in the case of local government organisations, where assistance with employee-sourced housing was relatively more prevalent.

C.2 FIFO and DIDO arrangements

FIFO and DIDO workers may qualify for FBT exemptions on transport to and from a work site, as well as temporary accommodation and meals during work shifts while they are there (chapter 7). An estimate of the number of FIFO and DIDO workers is needed to shed light on use of these exemptions, and to assist in estimating the number of employer-provided dwellings used as temporary residences (rather than as usual place of residence). It also assists in testing claims about the effect of FIFO and DIDO work practices on remote towns.

The number of FIFO and DIDO workers

The Commission estimated the number of long-distance commuters using 2016 Census data on each person’s place of residence (by statistical area level 2 (SA2)) and their work destination zone (DZN). A person was classified as a long-distance commuter when the

distance between the centroid⁷⁵ of the SA2 that is their usual place of residence and the centroid of their work destination zone exceeded some threshold (box C.4). The Australian landmass is covered by 2310 SA2s and 9172 DZNs, creating 21 187 320 possible ‘commutes’.

Box C.4

Methodological considerations when estimating the number of long-distance commuters

As a rule of thumb, the smaller the geographic area, the better its centroid as a proxy for location. But confidentiality concerns can arise when geographic areas get very small and, in turn, the number of people travelling between any pair of them also starts to get very small. When there are few or zero people travelling between any usual place of residence and place of work, the ABS will randomly perturb data to safeguard the confidentiality of individuals. Accuracy can be lost when aggregating data that have been perturbed, as the many small errors start to add up to something significant.

The Commission found that using SA2s and work destination zones (DZNs) was the best trade-off between ensuring the quality of the location proxy and minimising data errors. ABS perturbation reduced the total count by about 3.5 per cent — an acceptable error. SA2s and DZNs are also small enough that the vast majority of people live or work within 50 km of the geographic centroid.

One drawback of using a different geographic area for usual place of residence and work destination is that the centroids of the two areas may be different. This can exaggerate or underestimate distances travelled. For example, a person who works at home will appear to have travelled if their SA2 of usual residence and DZN for work destination are of different sizes, even though they have not. This is a problem for calculating small commuting journeys, but introduces only a proportionally small amount of error for long-distance commuters.

As a robustness check, the Commission re-calculated the number of long-distance commuters using local government areas (LGAs), which are substantially larger than both SA2s and DZNs, for both usual place of residence and work destination. LGAs should produce a similar estimate where there is little scope for people to drive to work across LGA lines (such as in the Pilbara) or where there are many small LGAs close together (such as for metropolitan source communities). This is indeed the case. Estimates using the two methodologies are within 7 per cent for the Pilbara, and between 7 per cent and 12 per cent for the three largest source communities (table C.10).

Table C.9 shows the number of long-distance commuters for 250 km, 350 km and 500 km threshold distances, and where the work-destination zone was in the FBT remote area. The 350 km and 500 km thresholds offer reasonable lower and upper bounds for the number of FIFO workers, as a large majority of long-distance commuters travelling more than 500 km are likely to travel to their workplace by air. Those travelling less than 350 km are likely to use other forms of transport.

⁷⁵ The centroid is the average of coordinates, whereas the centre is equidistant from all points.

Table C.9 Number of long-distance commuters^a

Distance between the centroid of the SA2 that is their usual place of residence and the centroid of their work destination zone

<i>Distance travelled</i>	<i>Number of commuters</i>	<i>Distance travelled (cumulative total)</i>	<i>Number of commuters</i>
100 km – 250 km	44 900	> 100 km	115 800
250 km – 350 km	12 190	> 250 km	70 900
350 km – 500 km	7 560	> 350 km	58 710
More than 500 km	51 100	> 500 km	51 100

^a Where the place of work is in the FBT remote area.

Source: Commission calculations based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0).

Using long-distance commuting thresholds to estimate the DIDO workforce presents additional challenges. DIDO distances may be as short as 100 km (KPMG & MCA 2013, p. 2), which is a commuting distance that some people do daily. Counting all commuters who travel more than 100 km between home and their place of work would inflate the estimate of the number of DIDO workers. Moreover, centroids become a less reliable proxy for location at these distances (box C.4). For these reasons, the Commission's preferred estimate of the FIFO and DIDO workforce is the number of long-distance commuters who travel at least 250 km to their workplace (about 70 900 persons).

Sources and destinations of FIFO workers

About two-thirds of FIFO workers who are employed in the FBT remote area live in a *major city* of Australia (table C.10). Only a small minority (about 4 per cent) live in a *remote* or *very remote* area. All of the top six source communities are in Perth and its surrounds.

The large majority (about 86 per cent) of FIFO workers in the FBT remote area have their place of work in *remote* or *very remote* Australia (table C.11). The top destination zones are mining areas, including the Pilbara, Goldfields and Bowen Basin.

Table C.10 Source communities for FIFO workers^a

500 km distance between the centroid of the SA2 that is their usual place of residence and the centroid of their work destination zone

Area	Proportion (per cent)	Area	Proportion (per cent)
Major Cities of Australia	67	Remote Australia	1
Inner Regional Australia	17	Very Remote Australia	3
Outer Regional Australia	13		
Top six source communities (SA3)			
Rockingham	6	Swan	4
Wanneroo	6	Stirling	3
Mandurah	5	Joondalup	3

^a Where the place of work is in the FBT remote area.

Source: Commission calculations based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0).

Table C.11 Destination zones for FIFO workers^a

500 km distance between the centroid of the SA2 that is their usual place of residence and the centroid of their work destination zone

Area	Proportion (per cent)	Area	Proportion (per cent)
Major Cities of Australia	0	Remote Australia	18
Inner Regional Australia	2	Very Remote Australia	68
Outer Regional Australia	11		
Top six FIFO destinations (SA3)			
West Pilbara	34	Bowen Basin - North	6
East Pilbara	22	Outback - North	5
Goldfields	9	Outback - North and East	4

^a Where the place of work is in the FBT remote area.

Source: Commission calculations based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0).

Number of employer-provided dwellings as temporary accommodation

The Commission used its estimate of the number of FIFO and DIDO workers to approximate the number of employer-provided dwellings used as temporary accommodation in the FBT remote area. Assuming that FIFO and DIDO workers are on a two-week-on and two-week-off roster with six weeks' annual and sick leave, a worker would be on-site for 44 days out of every 100. Using lower and upper bounds of 51 100 and 70 900 respectively for the combined number of FIFO and DIDO workers, this suggests that about 22 480 to 31 200 beds are needed (assuming full occupancy).

With two bedrooms and four bedrooms being the lower- and upper-bound estimates of the average number of bedrooms in employer-provided housing (table C.2), this suggests that 5700 to 15 700 employer-provided dwellings are used to house FIFO and DIDO workers. An estimate of the FBT that would apply to this housing has not been calculated.

These figures could be an underestimate of the number of employer-provided dwellings used for FIFO and DIDO workers. The cyclical nature of the mining industry (the largest user of FIFO and DIDO work practices) means that mining companies need to have enough beds available to meet peaks in activity — such as during construction or maintenance shut-downs. Some of these peak-time workers may stay in other forms of temporary accommodation, such as hotels, but it is likely that most mining companies would have some capacity to house them in employer-provided accommodation. KPMG and the Minerals Council of Australia (2013, p. 69) estimated that there were about 108 000 ‘non-resident beds’ in the mining regions of Australia, although this estimate included beds available in temporary accommodation such as hotels, motels and caravan parks.

Number of FIFO workers close to a town

Some participants argued that FIFO work practices are used as an ongoing arrangement for worksites where employees could otherwise have resided in the local town. To investigate this claim, the Commission estimated the number of FIFO workers within a reasonable daily commute (50 km each way) and a maximum daily commute (100 km each way) of towns of different sizes. About one in three FIFO workers were located within 100 km of a town of 3500 or more people, and about one in five were located within 100 km of a town of 5000 or more people or a significant urban area (table C.12).

Table C.12 Estimate of FIFO^a workers close to regional towns
Using centroid of the DZN as worksite location

Minimum town size	Distance to town - 50 km		Distance to town - 100 km	
	No.	Proportion (per cent)	No.	Proportion (per cent)
3 500	13 500	26	16 450	32
5 000	12 400	24	15 700	30
Significant urban area	9 100	18	11 400	22

^a A FIFO worker is classified as a person for whom the distance between the centroid of the SA2 that is their usual place of residence and the centroid of their work destination zone is more than 500 km.

Source: Commission calculations based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0).

The centroid of the FIFO worker’s DZN was used as a proxy for worksite location, although this has its limitations. FIFO workers tend not be distributed evenly throughout a DZN and instead tend to ‘cluster’ in specific locations, such as at a mine site or in a town (box C.4). If

this cluster is near the edge of a DZN, using the centroid as a proxy for location may over- or under-estimate how far FIFO workers are from a town.

As a robustness check, the Commission estimated the distance of all currently operating mines in the FBT remote area from towns of different sizes (table C.13). The advantage of this approach is that the coordinates of a mine site are known, and so distances to nearest towns can be calculated with a high degree of accuracy. The drawback is that it includes *all* mines, not just those who use FIFO workers. Some mines operate FIFO workforces and some already use workers based locally, so this robustness check is more of a ‘sense check’ than a point estimate of FIFO workers.

Table C.13 List of towns with 5000+ people in the FBT remote area

<i>Town</i>	<i>Town</i>	<i>Town</i>	<i>Town</i>	<i>Town</i>
Alice Springs	Collie	Hervey Bay	Moama	Singleton
Ararat	Cooma	Horsham	Moranbah	Stanthorpe
Atherton	Cootamundra	Innisfail	Moree	Stawell
Ayr	Corowa	Inverell	Mount Isa	Swan Hill
Bairnsdale	Cowra	Inverloch	Mudgee	Tumut
Ballina	Dalby	Kalgoorlie - Boulder	Murray Bridge	Tuncurry
Batemans Bay	Deniliquin	Karratha	Muswellbrook	Ulladulla
Benalla	Drouin	Kempsey	Nambucca Heads	Warragul
Biloela	Dunsborough	Kilmore	Naracoorte	Warwick
Blue Mountains	Echuca	Kingaroy	Narrabri	Woodend
Bowen	Emerald	Kununurra	Newman	Yamba
Broken Hill	Esperance	Kyabram	Northam	Yarrawonga
Broome	Forbes	Kyneton	Nuriootpa	Yeppoon
Busselton	Forster	Leeton	Parkes	Young
Byron Bay	Gatton	Lennox Head	Port Hedland	
Camden Haven	Glen Innes	Leongatha	Port Lincoln	
Cannonvale	Goolwa	Lithgow	Portland	
Castlemaine	Goondiwindi	Maffra	Roma	
Charters Towers	Griffith	Mareeba	Sale	
Chinchilla	Gunnedah	Margaret River	Sarina	
Cobram	Gympie	Maryborough	Scone	
Colac	Hamilton	Millicent	Seymour	

Source: AustralianTownsList.com (2019).

About 58 per cent of mines (213 of 368 operating mines) are estimated to be within 100 km of a town of at least 5000 people (table C.14, figure C.2). About 28 per cent (104 operating mines) are estimated to be within 100 km of a significant urban area. Focusing on Western Australia (where about half of FIFO workers are located), of an estimated 161 operating mines in the FBT remote area, about 42 per cent (68 mines) are estimated to be within 100 km of a town of at least 5000 people. About 30 per cent (49 mines) are estimated to be within 100 km of a significant urban area.

Table C.14 Operating mines close to regional town^a

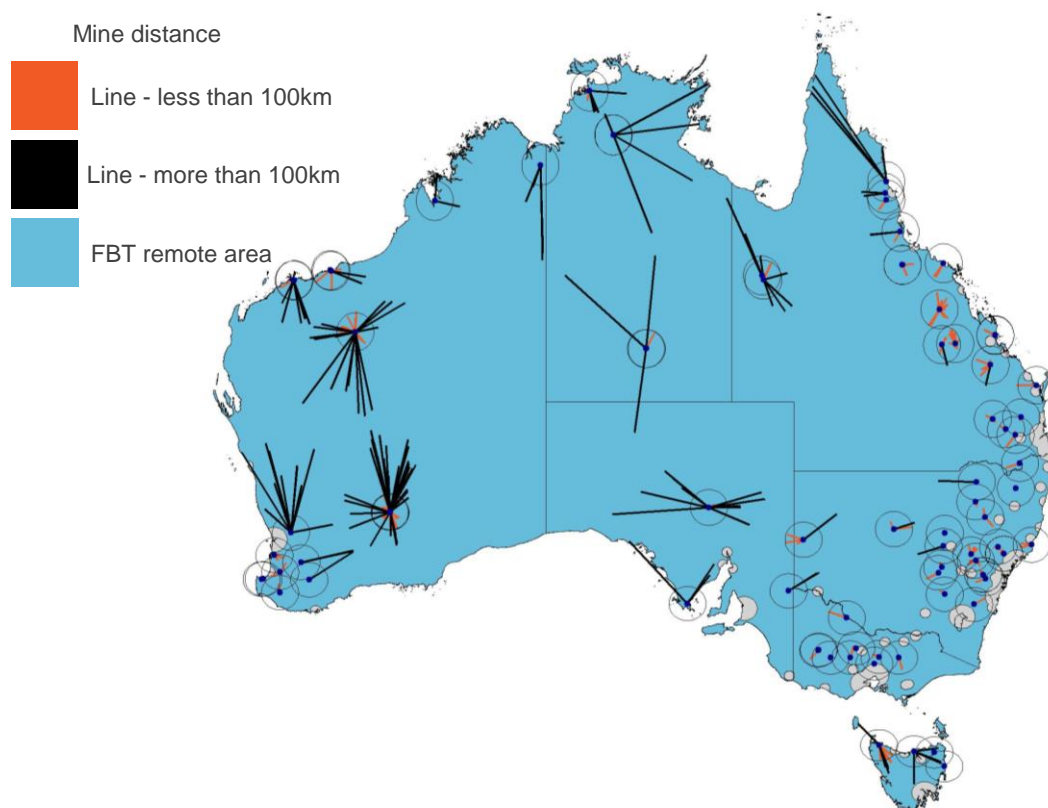
Minimum town size	Distance to town - 50 km		Distance to town - 100 km	
	No.	Proportion	No.	Proportion
3 500	149	40 per cent	213	58 per cent
5 000	123	33 per cent	194	53 per cent
Significant urban area	65	18 per cent	104	28 per cent
Western Australia^b				
3 500	47	29 per cent	68	42 per cent
5 000	39	24 per cent	68	42 per cent
Significant urban area	32	20 per cent	49	30 per cent

^a 368 mines operate in the FBT remote area. ^b 161 operating mines operate in Western Australia.

Source: Commission calculations based on Geoscience Australia (2015) data.

Figure C.2 Mine distance to nearest town of 5000 people or more^a

Operating mines, including mines that use FIFO workers, those that only use local workers and those that use a mix



^a Circles represent 100 km radii from towns located in the FBT remote area and with population greater than 5000 people. Only those towns that are nearest to a mine are shown.

Source: Commission calculations based on Geoscience Australia data.

These results suggest that a significant proportion of FIFO or DIDO operations are too far away from a town to make residing locally a feasible alternative.

C.3 Other remote area concessions

Other FBT remote area concessions include the partial concession on residential fuel, the partial concession on holiday transport, and the exemption for meals for primary production employees. These account for a smaller proportion of the value of the remote area concessions than those on housing.

Residential fuel

FBT partial concessions on residential fuel are available for those employees in the FBT remote area receiving either employer-provided housing or assistance with employee-sourced housing. The Commission has estimated the use and value of the residential fuel concession for employer-provided housing, but not for the employee-sourced housing. This is both because of the lack of data on employee-sourced housing and because neither residential fuel nor assistance with employee-sourced housing is required to be reported in FBT returns to the ATO (section C.1) (That is, they are both ‘excluded fringe benefits’). Nevertheless, FBT revenue forgone due to the partial concessions on residential fuel for employee-sourced housing is likely to be relatively low. Not only is this type of housing relatively little-used, but use of the concession on residential fuel is only possible in conjunction with the concessions on financial assistance provided for rent payments or the provision of a loan (chapter 7).

The Commission estimates that FBT revenue forgone due to the partial concessions on residential fuel is about \$20 million per year (table C.15). This is based on:

- Commission estimates that 46 500 dwellings are provided by employers in the FBT remote area as employees’ usual place of residence (section C.1)
- an assumption that 50 per cent of employees receiving employer-provided housing receive residential fuel. Responses to the Commission’s questionnaire (box C.3) indicated that nearly half the employees receiving remote area employer-provided housing also received residential fuel. This was consistent across the major industries in the remote FBT regions (mining, local government and agriculture)
- average expenditure on electricity and gas per household (as a proxy for individual expenditure) of \$2030 per year (table C.15). This implies an FBT saving of about \$1000 per year per household.

Table C.15 Tax savings from residential fuel for employer-provided housing^{a,b}

	<i>Average expenditure per household</i>	<i>FBT revenue forgone in aggregate</i>
New South Wales	\$1 975	\$3 million
Victoria	\$2 340	\$2 million
Queensland	\$1 560	\$5 million
South Australia	\$2 080	\$1 million
Western Australia	\$1 870	\$7 million
Tasmania	\$2 290	\$0.4 million
Northern Territory	\$2 080	\$2 million
Total	\$2 030	\$21 million

^a Estimates were generated by multiplying 50 per cent of the users of employer-provided housing by the average expenditure per household in the FBT remote area. ^b Column totals may not add due to rounding.

Source: Commission calculations based on the ABS (*Household Energy Consumption Survey, 2012*, Cat. no. 4670.0).

Based on the Commission's questionnaire, the use of residential fuel concession was highest in the mining industry. This could reflect the nature of mining operations, as some employees reside in remote towns and camps that lack a private utility market. It could also reflect the economies of scale enjoyed by mining businesses, which would increase their capacity to provide such goods and services.

Holiday transport

Partial concessions may apply to transport provided or paid for between an employee's usual place of residence in the FBT remote area and their previous place of residence, or the capital city of their state of employment.⁷⁶ Travel must be undertaken in order to take a holiday, which must exceed three working days (chapter 7).

As with employee-sourced housing, holiday transport is an 'excluded benefit' that is not required to be reported to the ATO. The resulting shortage of adequate data makes it difficult to shed light on the number of employees (and their families) utilising this partial concession. It is even more difficult to calculate the total number of trips that the concession applies to each year.

Responses to the Commission's questionnaire indicated a low uptake of this partial concession: less than 15 per cent of the respondents, or about 5300 of their employees, used holiday transport. This can be taken as the lower bound of its usage as the respondents account for only a subset of total employees in the FBT remote area. Treasury (2019)

⁷⁶ Aside from the Northern Territory, where Adelaide is considered the state capital city, and Christmas Island, where Perth is considered the state capital city.

estimated that FBT revenue forgone as a result of this concession was between \$0 and \$10 million in 2018-19. Responses to the Commission's questionnaire suggest that the Treasury's lower bound can be safely ruled out. If the Treasury's upper-bound estimate is correct, and given that at least 5300 employees received holiday transport, it follows that the average tax saving is at most about \$1900 per employee.

Meals for primary production employees

This exemption affects only those receiving meals in industries related to primary production. The ATO defines primary production activities as:

- plant or animal cultivation (or both)
- fishing or pearling (or both)
- tree farming or felling (or both).

The majority of these activities are conducted in two industries: Agriculture, Forestry and Fishing; and Transport, Postal and Warehousing (Commission estimates based on ABS Australian and New Zealand Standard Industrial Classification (cat. no. 1292.0), 2006). There are about 168 000 employees in the Agriculture, Forestry and Fishing industry and 57 000 in the Transport, Postal and Warehousing industry in the FBT remote area (Commission estimates based on ABS Census and Population Housing TableBuilder, 2016). Within the latter industry, only those employees hauling logs would be classified as undertaking a primary production activity. Less than 10 per cent (about 5700) of employees in this industry were involved in road freight transportation in the FBT remote area, and an even smaller proportion of them would be involved in log haulage.

As with many of the other concessions, estimating the use of the exemption for meals for primary production employees has been difficult due to the lack of data available. The Treasury (2019) estimated that FBT revenue forgone as a result of the exemption was between \$10 and \$100 million in 2018-19, which is plausible given the number of employees working in these industries in the FBT remote areas. Assuming that the 168 000 employees in the Agriculture, Forestry and Fishing industry receive meals, Treasury's estimated range implies that the average individual tax savings on these meals are between \$60 and \$600 per year per employee.

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