



Australian Government
Productivity Commission

Remote Area Tax
Concessions and Payments

Productivity Commission
Study Report

February 2020

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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).

Foreword

Tax concessions for remote areas date back to the end of World War II when an income tax concession was introduced in recognition of the high living costs, isolation and uncongenial climate in much of remote Australia.

Australia has evolved considerably since then. Some places that were undeniably remote in 1945 have become urbanised, with good connections to the rest of the country and the world. Over that time, technological and economic developments have cushioned many of the difficulties of living in remote Australia.

This study is a timely review of three longstanding tax concessions and payments targeted to residents and businesses in remote and regional areas: the zone tax offset, the remote area allowance, and the fringe benefits tax remote area concessions. The study examines the operation and effectiveness of the measures, and their role and relevance in contemporary Australia, as part of a broader tax and transfer system.

The Commission has benefited from engaging with residents, business owners and community leaders in remote and regional Australia. We are grateful to everyone who has been involved in this study. We particularly thank those who provided written submissions, met with us, or provided assistance in organising our extensive program of visits around the country.

This study would not have been possible without the assistance of the Australian Taxation Office and the Department of Social Services, which provided timely access to administrative data.

We would also like to express our appreciation to Jane Melanie, who led the study, and the team: Paul Loke, Tom Nankivell, Brent Carney, Matthew Hyde, Daniel McDonald, Bronwyn Fisher, Arseni Matveev, Manpreet Singh, Cathal Leslie and Annika Powers. Our thanks also go to Ralph Lattimore, Henry McMillan, Marco Hatt, Ingrid Ottaway and Pragya Giri for their assistance.

Jonathan Coppel
Presiding Commissioner

Paul Lindwall
Commissioner

February 2020

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 practising accountant
CPI	consumer price index
Cth	Commonwealth
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
DJSB	Department of Jobs and Small Business
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
FTB	family tax benefit
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.
IGAFFR	Intergovernmental Agreement on Federal Financial Relations
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
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
PATS	patient assisted travel scheme
PC	Productivity Commission
PM&C	Department of the Prime Minister and Cabinet
PwC	PricewaterhouseCoopers
Qld	Queensland
QPC	Queensland Productivity Commission

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
RFBA	reportable fringe benefits amount
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' Entitlements Act
Vic	Victoria
WA	Western Australia
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

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.

FBT remote area concessions take one of two forms: exemptions, which remove the obligation to pay fringe benefits tax on something, and partial concessions (usually, 50 per cent), which reduce the tax payable.

Fringe benefit, or benefit (n.)

The terms ‘fringe benefit’ and ‘benefit’ are used interchangeably to describe the subjects of the *Fringe Benefits Tax Assessment Act 1986* (Cth).

They typically refer to certain goods and services provided to employees, regardless of whether the goods and services benefit the employee in a private capacity.

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.

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 amount	Fringe benefits are either reportable or excluded. Reportable fringe benefits amounts must be listed on an employee's payment summary if the total (grossed-up) value of those benefits provided to them exceeds a certain amount.
Statistical Area Level 1 (SA1), Statistical Area Level 2 (SA2), Statistical Area Level 3 (SA3)	<p>Three types of geographical area that form part of the ABS's 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, and 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 <i>Income Tax Assessment Act 1936</i> (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. '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 the introduction of the first of these concessions in 1945. Many areas once considered isolated are no longer so, and improvements in technology have reduced the difficulties of life in remote Australia, although to a lesser extent in very remote places.
- About half a million Australians live in remote areas far from cities and regional centres. The tyranny of distance makes living and doing business challenging, with many things taken for granted by most Australians unavailable or difficult to get. Yet for those in remote Australia there is frequently a strong personal or cultural connection to a place and community as well as to the way of life it offers. Others are attracted by job opportunities.
- The zone tax offset (ZTO), remote area allowance (RAA), and fringe benefits tax (FBT) remote area concessions are designed to redress some of the inherent challenges of living in, or to support, parts of regional and remote Australia.
- The ZTO — a small tax concession available to residents of specified areas — is outdated. As it currently operates, it is poorly-targeted, and ineffective as a magnet for remote living.
 - It lacks a compelling contemporary rationale, and should be abolished. In many cases, higher remuneration for jobs in remote Australia compensates workers, at least to some extent, for the disadvantages of remote living.
 - If the ZTO is retained, only those people living in *very remote* areas should be eligible.
- The RAA is a supplementary payment for people on income support in remote areas. It partially compensates for higher living costs. The majority of recipients face socioeconomic disadvantage and barriers to mobility. Being out of the labour market, RAA recipients do not benefit from the remuneration premiums that apply to ZTO recipients.
 - The RAA has a legitimate role — it can serve to partly compensate people on income support for higher living costs and less ready access to services. But it needs a refresh — with boundaries set around *very remote* Australia only and payment rates reviewed.
- 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 assistance goals.
 - The most compelling argument for these concessions is the former. But current concessions are overly generous and complex, thereby creating other inequities. By virtue of their broad application, they are ineffective in supporting service delivery needs and regional development.
 - The concessions should be redesigned to be more tax neutral. This would reduce the scope for differential tax treatment to distort investment decisions — delivering more efficient outcomes and generating tax revenue that could be used for other priorities.
 - Most significantly, the exemption for employer-provided housing should be changed 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’ should be removed.
- In looking at alternative mechanisms to support regions, governments should be cautious of top-down approaches. While there are few one-size-fits-all solutions, harnessing existing capabilities and locational advantages should be at the core of any such strategy.

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 demands 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 this support has 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 highly developed, with connections 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 concessions date 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. Governments further expanded the arrangements over the following decades.

- In 1984, the RAA was introduced as a supplementary payment for income support recipients, extending the benefits of the ZTO to non-taxpayers residing in remote Australia.
- In 1986, FBT remote area concessions were introduced to lessen the impact of the then-new FBT. These concessions were subsequently expanded, most notably 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 (FIFO) workers who reside outside the zones, there has been no substantive change to the ZTO and the RAA for more than thirty years. This inertia has kindled concerns that these measures have failed to keep pace with change in remote Australia, and may now be outdated.

The Commission's approach

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 boundaries.

As required by the *Productivity Commission Act 1998* (Cth), the Commission has taken a community-wide perspective while also considering ways of promoting regional development. This involved taking into account not only the economic and employment effects 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. 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 sought to understand the demands of life in remote Australia. This involved an extensive program of visits to meet with residents, business owners and community leaders. The Commission received 98 submissions from a wide cross-section of stakeholders before the draft report. Following the release of the draft report, the Commission engaged further with stakeholders across all key affected jurisdictions, and received a further 101 submissions. Most submissions were from people and groups who favoured retaining, extending and increasing the level of support.

The submissions also highlighted the issues remote communities face on a daily basis. Some people keenly felt the absence of the things they believe most Australians take for granted — for example, having access to nearby schools. Others held deep concerns over the social and economic decline in their community, the loss of social fabric, and the prospects of their towns.

In some cases, the challenges raised diverged sharply from one town to the next. Some people questioned the value of a transient FIFO workforce for their communities, while those in '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 risen significantly over the years, just as they have elsewhere in Australia.

The Commission also visited communities that were optimistic about their future, typically due to 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 who enjoy living where they do, although some also felt somewhat ‘stuck’ in remote Australia.

The broader policy context

In undertaking this study, 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.

State and Territory governments, with support from local governments, have primary responsibility for service delivery within their jurisdictions. The measures include: remote area (district) allowances to attract police, teachers and other professionals; support for patients needing to travel long distances to access specialist medical services; and distance education. In addition, initiatives extend to the funding of regional projects — the Western Australian Government’s Royalties for Regions program is but one example.

The Australian Government also assists people, businesses and communities in regional and remote areas, including through 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, specific funds such as the Building Better Regions Fund and significant infrastructure investments (including regional airports). This is on top of Australia’s system of horizontal fiscal equalisation, which aims to give each jurisdiction the fiscal capacity to provide a similar level of public services, and notably considers the higher per capita expenditure on service delivery in remote areas.

All governments have extensive involvement in the relief, recovery and reconstruction of communities devastated by natural disasters, such as the recent bushfires. Their responsibilities include building resilience to future natural disasters — through mitigation and prevention strategies — as well as the initial response and recovery from a natural disaster. The crux of this support is that it is targeted to the communities affected, wherever they are located.

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

The empirical challenge

A challenge for this study has been the dearth of data. Even where data are available, gauging the effects of the measures is problematic. The value of the ZTO and RAA is small in relation to incomes, making it difficult to disentangle their effects from other factors and to assess their local impacts. Equally, the impacts of the FBT remote area concessions on particular industries are confounded by factors that have a much greater influence on the performance of these industries, such as commodity price cycles in the case of the mining sector.

Given this, the Commission has undertaken several empirical exercises, drawing largely on unpublished data sources, and conducted a survey of the use of FBT remote area concessions in the mining, agricultural and local government administration sectors. This final report has benefited from participants' responses to the information requests in the draft report, which have contributed to narrowing some of the data gaps. Drawing from other data sources, the Commission has also revisited its analysis of wage and cost of living differentials.

Constitutional issues

There has been persistent debate about the constitutionality of remote area tax concessions. 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'. The arrangements, however, have never been directly tested by the High Court.

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 Commission has also sought and received legal advice and has considered the associated constitutional risk when examining different reform options.

Life in remote Australia

Remote Australia accounts for more than 85 per cent of Australia's landmass but just 2 per cent of Australia's population. It 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.

When income tax concessions were introduced in the mid-1940s, life in remote Australia was often arduous, with less 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 economic activity and employment now centred in our major cities, regional centres and coastal areas, some previously isolated towns have developed into large, connected economic centres in their own right and are no longer remote (figure 1, panel B). For example, in 1947, Cairns had a population of 16 600 (now 152 700) while Darwin had just 2500 residents (now 134 500). At the same time, improved communication and (air and road) transport infrastructure, more affordable air-conditioning and other advances have helped lessen the difficulties of life in many remote places.

Of course, the tide of economic progress does not lift all boats equally, and nor has the story been one of universal, continuous growth — some places grow steadily, while others experience booms and busts. Accordingly, some remote areas have not benefited from economic development as much as others, and some others have had a declining population.

More generally, in much of very remote Australia, the difficulties of remote living have, at best, been only partly overcome; as one former resident of remote Western Australia put it:

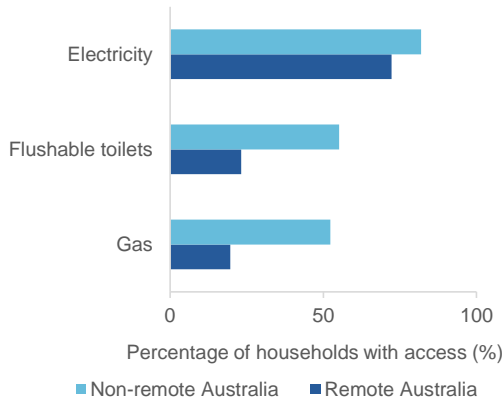
Long hours in cars to get anywhere; high airfares; fuel prices; food prices; costly housing; high insurance costs; liquor restrictions in some of the very remote regions; poor roads that bash their cars to pieces; high education costs of kids having to be sent away to schools; medical services where 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)

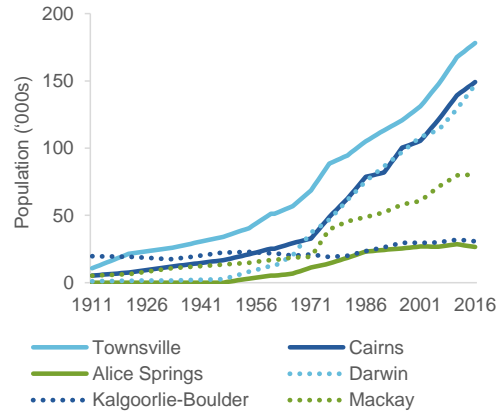
Isolation can make it hard for people in remote areas to attain a comparable standard of living to city residents or to those living in regional towns. Access to key services such as education, healthcare and transport is a major concern, especially for those living in *very remote* areas (as defined by the ABS). The cost of living is generally higher, and businesses face higher costs: for example, in paying higher 'compensating' wages to attract and retain skilled labour.

Figure 1 A snapshot of remote Australia and its evolution

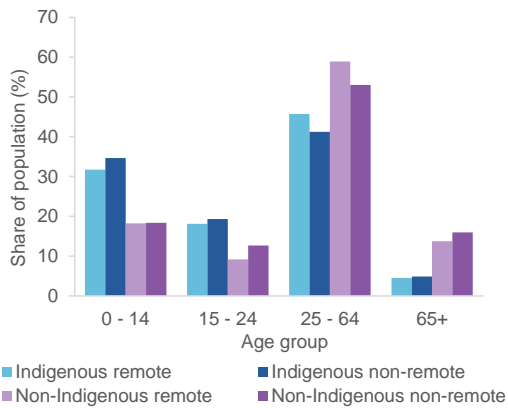
A. In 1947, remote residents had fewer comforts



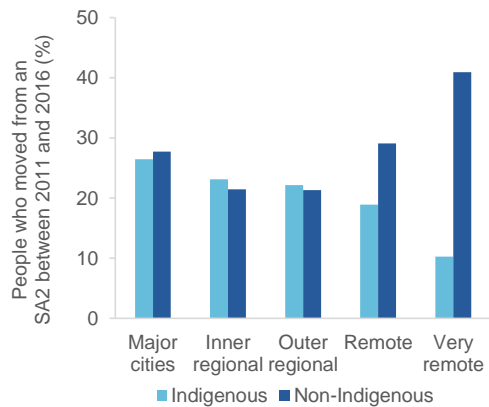
B. Some remote towns have grown into cities, while others have not



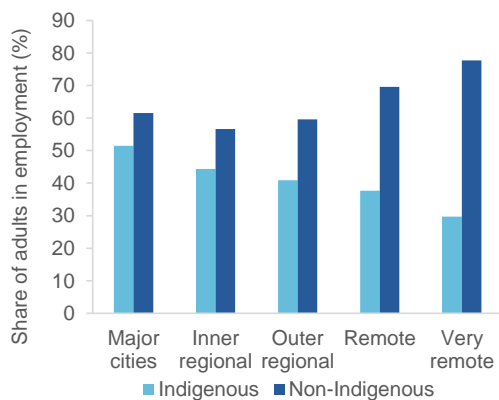
C. Much of the non-Indigenous population are in their prime working years ...



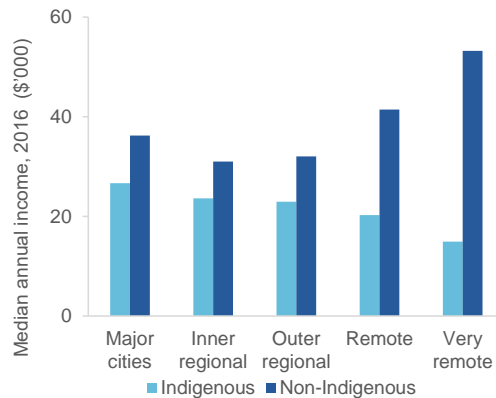
D. ... and they are generally more mobile than their Indigenous counterparts



E. There are divergent employment rates across and within areas ...



F. ... as well as divergent income patterns



In spite of these challenges, many Australians choose to live in remote locations because they have compensating benefits. Some hold a strong cultural or personal attachment to a particular place and the way of life it offers, while others obtain higher remuneration or job opportunities that make living there more attractive. The Commission was also struck by the community spirit in many remote areas, which enhances people's quality of life.

However, other people are less mobile, which affects their ability to seize economic and educational opportunities elsewhere. 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). Further, the patterns of movement are different. Non-Indigenous residents typically move between remote Australia and large urban areas, suggesting that they might be moving temporarily for work purposes. For Indigenous Australians, there is little movement between large urban areas and remote areas, with movement overwhelmingly *within* remote Australia and largely motivated by familial and cultural ties.

There are also marked divergences in income and employment outcomes between Indigenous and non-Indigenous Australians. These differences are particularly stark in *very remote* areas (figure 1, panels E and F).

A closer look at the cost of living

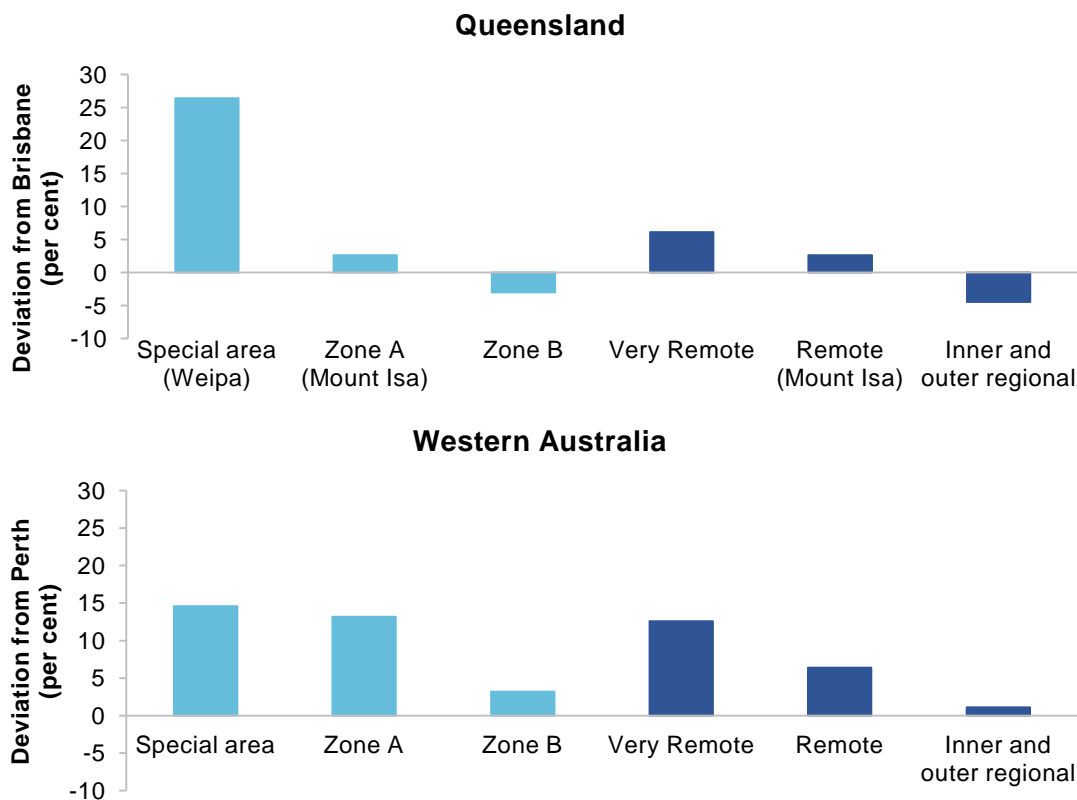
Many goods and services are more expensive in remote Australia. Study participants gave specific examples, which were useful in their own right although they do not provide a comprehensive basis for enumerating the geographic differences in the cost of living. The Commission has had to draw on a wider range of sources — including data from the ABS, the Australian Competition and Consumer Commission, CoreLogic and the consumer advocacy body CHOICE, as well as State-based price surveys — to help paint a picture on how the cost of living varies across Australia.

Regional price indexes for Queensland and Western Australia, which cover the places where 75 per cent of ZTO recipients and 40 per cent of RAA recipients live, suggest that a typical household basket of goods costs more in special areas and Zone A communities than in the less remote Zone B, 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 for the ABS remoteness areas (figure 2).

There is clearer and more consistent evidence that food and grocery prices increase with remoteness. For example, in 2017, the Northern Territory Market Basket Survey found that the average cost of a food basket based on the average diet of Indigenous Australians in remote stores was 45 per cent higher than in a Darwin supermarket.

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 2019; 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 pattern of food and grocery prices in part reflects the presence of major supermarkets that typically apply broadly uniform pricing across Australia. More than four in five residents of *outer regional* areas live within a 50 km radius of a Coles or Woolworths store, falling to about half in *remote* areas and one in five in *very remote* areas — with areas in italics referring to ABS classifications of remoteness.

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. 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.

On the one hand, comprehensive data from CoreLogic indicate that median house prices and rents are significantly lower in *remote* and *very remote* areas than in *major cities* for a given number of bedrooms. Further, in many remote communities there is a high reliance on subsidised social housing.

On the other, regional price index data from Queensland and Western Australia indicate that *total* housing costs, including utilities, maintenance and insurance, are higher in *remote* and *very remote* areas than in *major cities* and in *inner* and *outer regional* areas. This is particularly the case in small communities lacking resident tradespeople and where materials need to be transported over long distances or across water. These price data do not control for the quality of housing, making firm conclusions difficult.

Overall, living costs in some *remote* areas may not be significantly different from those in their respective capital cities. However, it is clear that *very remote* areas face higher living costs on average, and that some communities in those areas experience prices for many goods and services that are substantially greater than those elsewhere in Australia.

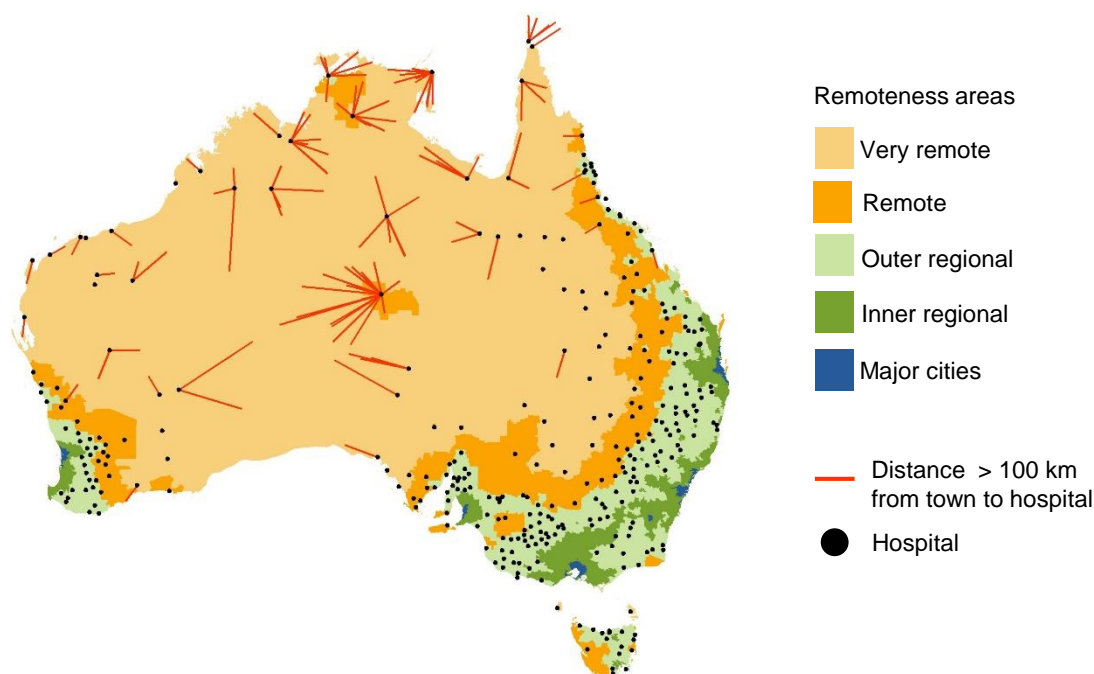
A closer look at the accessibility of services

The availability and cost of accessing key services, such as healthcare, is a major concern for many Australians living in remote areas. In many cases, residents must travel long distances for face-to-face treatment — and even further to access specialists. About 40 per cent of *very remote* Australians are more than 100 kilometres from the nearest hospital, compared with only 3 per cent of *remote* area Australians (figure 3). Further, response times for emergency services can be several times higher in *remote* areas than in *major cities*, and higher still in *very remote* areas.

Similarly, while primary education is relatively accessible for most remote area residents, access becomes more difficult as students progress through high school and on to university or vocational education. Even though there are alternatives to traditional class-based learning, including distance education, it is still common for many remote area families to enrol their children in boarding schools, and for tertiary students to relocate to regional centres or cities to continue their studies.

These challenges vary from place to place, but can be significant — especially in *very remote* areas.

Figure 3 **Access to public hospitals is limited in very remote areas^a**
Towns more than 100 km from an emergency department



^a The map shows the distribution of public hospitals across the remoteness areas, and distances of more than 100 km between towns of over 200 people and public hospitals. The overwhelming majority of these towns are in *very remote* areas.

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).

Table 1 and figure 4 provide a snapshot of the measure.

- Base rates differ by zone, with higher tax offsets available to residents of areas considered to be more remote (table 1). 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 4). Taxpayers can claim a larger offset if they maintain dependants.

- About 95 per cent of claimants reside in Queensland, Western Australia or the Northern Territory, and nearly half live in the four largest cities in the zones (Townsville, Cairns, Darwin and Mackay). The average per-person claim was \$319 per year, although nearly half of all claims were less than \$100.
- In aggregate, the offset amount claimed is estimated at \$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).

Table 1 Summary of the zone tax offset^a

	<i>Base offset</i>	<i>Dependant loading</i>	<i>Claimants</i>	<i>Total claims^b</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%	28 000	\$32 million	\$1 146 ^c
Other ^d	na	na	38 000	\$19 million	\$496
Total	na	na	480 000	\$153 million	\$319

^a Based on Commission estimates of zone boundaries. ^b Refers to self-assessed amount of ZTO claimed by taxpayers, which may exceed the amount actually received. ^c Average claim is less than the base rate because some taxpayers did not reside in a special area for the entire financial year. ^d Includes claimants who recorded out-of-zone addresses, overseas addresses, and postcodes not linked to a geographical area. **na** Not available.

Operation of the ZTO

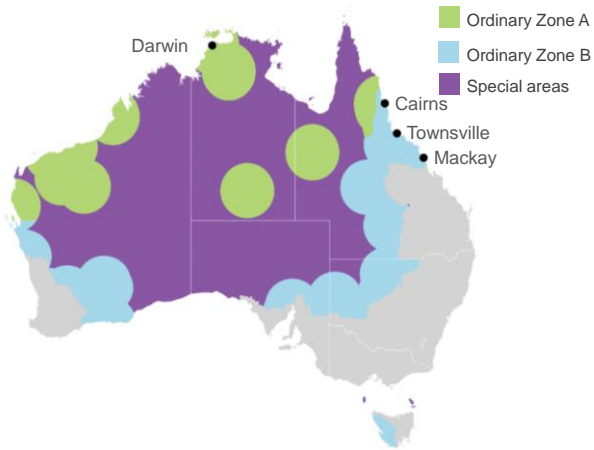
As currently configured, the ZTO is largely ineffective and does not deliver on its original objective (nor against any others that have been ascribed to it), and the zones are outdated.

The measure has little effect

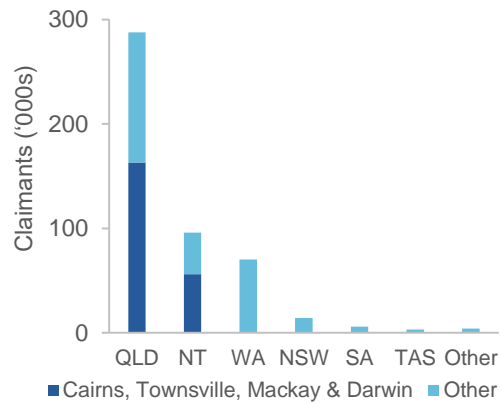
Since the last increase in the level of the ZTO in 1993-94, its value has declined markedly in real terms and as a share of after-tax earnings. Today, for a taxpayer on an average income, the base Zone A offset represents less than 1 per cent of after-tax income — compared with 3.7 per cent when the ZTO's predecessor was first introduced in 1945. If the offset had been adjusted to keep pace with inflation, it would be more than double the current base rate of \$338. The offset available to those living in one of the special areas created in 1982 is more substantial, but its real value has also fallen (figure 4, panel C).

Figure 4 A snapshot of the ZTO

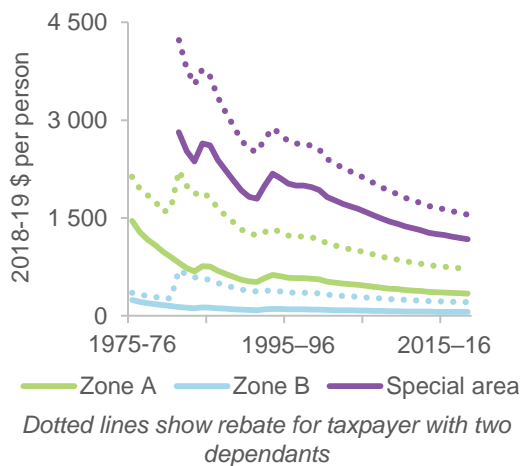
A. The ZTO zones cover more than 3/4 of Australia's landmass



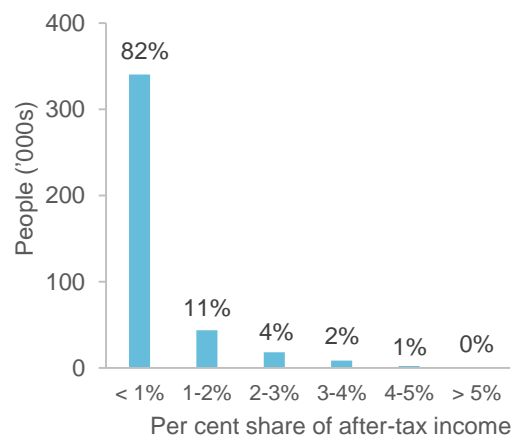
B. Nearly half of claimants reside in large coastal cities



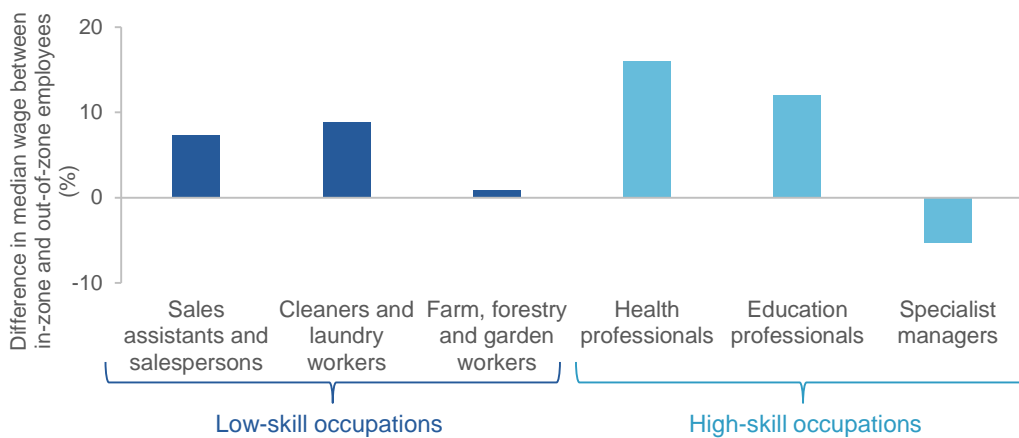
C. The ZTO has fallen significantly in real value ...



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



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



A near-universal view in submissions was that the ZTO rates are inadequate to compensate for the disadvantages of remote living or to encourage people to move to the zones from elsewhere in Australia. The Commission likewise found no evidence to suggest that the ZTO (at its current rate) affects where people decide to live and work.

Further, 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

Against a backdrop of significant evolution in remote Australia, some areas covered by the ZTO are clearly no longer ‘isolated’. In particular, as noted above, coastal areas like Townsville, Cairns and Darwin have developed considerably since the 1940s.

These places, along with Mackay, are regional cities in their own right, with easy access to key services, well-developed retail markets, and good transport connections to other capital cities. A more contemporary measure of remoteness (the ABS remoteness classification) defines much of the north-east coast of Queensland, as well as Darwin, as *outer regional*, and not *remote* or *very remote*.

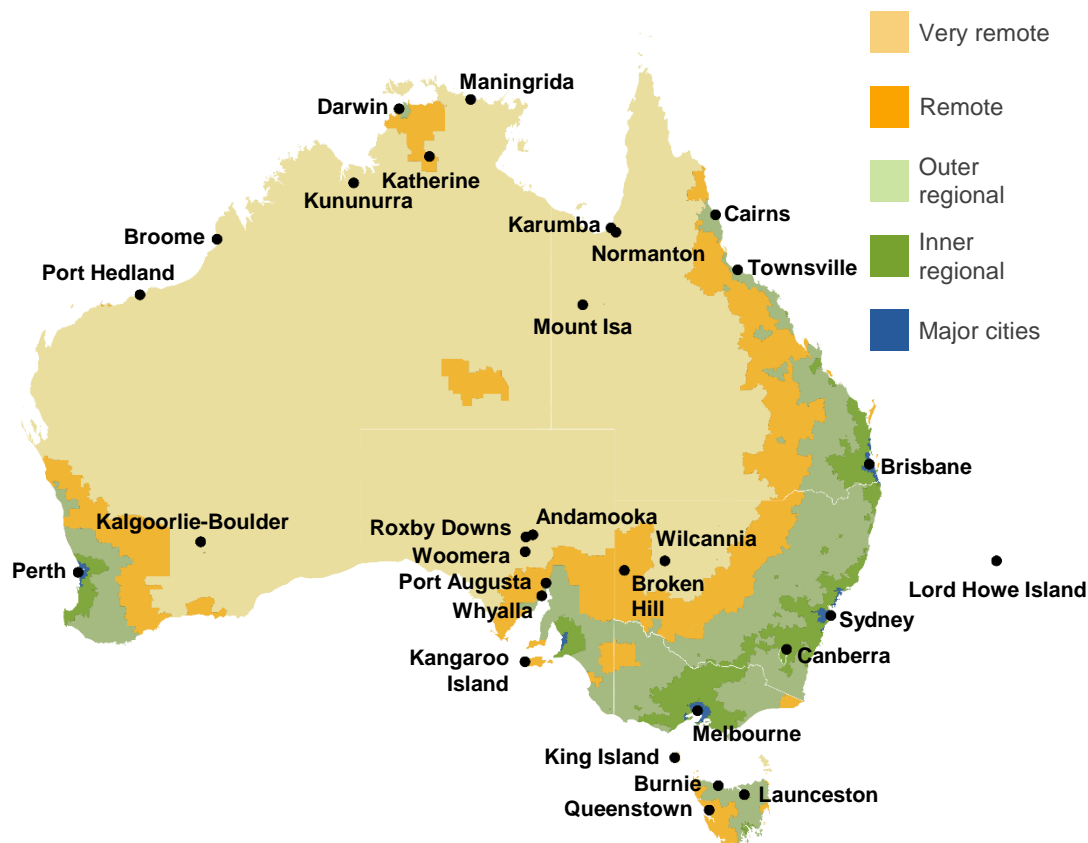
Other anomalies in the current boundaries were brought to the Commission’s attention. For example, one participant observed that towns with vastly different circumstances are eligible for the same ZTO rate, commenting that the Queensland part of Zone A includes:

... 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. (Isolated Children’s Parents’ Association of Australia, sub. 74, pp. 2–3)

Similarly, some *very remote* areas (based on the ABS classification) receive a small offset as part of ordinary Zone B, or lie outside the zones. For example, Wilcannia (in New South Wales), which is classified as *very remote* by the ABS, is eligible for the same tax offset as Townsville, which is classified as *outer regional* (figure 5).

Figure 5 **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.

Is there a role for the ZTO in contemporary Australia?

While the flaws in the ZTO mean that at the very least it should not continue in its current form, the larger question is whether a ZTO is warranted at all.

The rationale for the ZTO has shifted over time. Originally, the concession was designed to reduce income tax paid on the higher wages needed to attract workers to isolated areas. This became less relevant as, since its introduction, marginal tax rates on high incomes have fallen significantly. Later on, the 1981 Cox Review (the most recent review) justified the concession on what it termed ‘social grounds’. This effectively reframed the ZTO’s objective towards equity, with a focus on addressing the hardships of remote living.

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

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

In many parts of regional and remote Australia (but not *very remote* Australia), costs are not higher than in major cities. Even where this is the case, higher living costs or other aspects of life in remote areas do not warrant compensation for two main reasons.

- First, everyone faces advantages and disadvantages in where they live and will typically locate themselves in the area they value most highly.
- Second, many employers both in private and public sectors already provide additional wages to compensate for the disadvantages of remote living (figure 4, panel E). Many State governments (as well as both the Australian Public Service and the Australian Defence Force) pay allowances and provide ‘in-kind’ remuneration to remote area workers, teachers, police officers and health care professionals.

There is no general role for the Australian Government to augment these dynamics. However, an exception may apply to people who live in remote areas and face significant barriers to geographic mobility, or whose income is not primarily derived from paid employment — a situation most likely to apply to RAA recipients (discussed later).

The ZTO is also difficult to justify as a way of encouraging people to relocate to particular areas. Broad tax concessions are an ineffective tool to promote migration and do little to support regional economic development. As the Commission found in its 2017 *Transitioning Regional Economies* report, the growth (or decline) of areas generally reflects their intrinsic economic advantages (or disadvantages), and their capacity to withstand economic shocks.

The ZTO should be abolished

In sum, the Commission considers that there is no compelling, contemporary justification for the ZTO and, on this basis, it should be abolished.

For most claimants, abolishing the ZTO would have small impacts. Among taxpayers in ordinary Zone B (who represent about 60 per cent of claimants), the average loss of \$133 each year — about \$2.50 a week — would be absorbed with little discernible impact. And 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 more than 3 per cent of their after-tax income. Moreover, 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 gives a tax concession to defence force employees and civilians on particular overseas assignments — although currently fewer than 50 people claim it. As with the ZTO, there is not a good case for retaining the OFTO — defence employees should be compensated directly through normal remuneration arrangements, not the tax system. Accordingly, the OFTO should similarly be abolished.

Abolishing the ZTO and OFTO would increase Australian Government revenue by around \$150 million per year.

If retained, the ZTO should be reconditioned

The terms of reference ask the Commission to determine what an appropriate ongoing form and function of the ZTO might be — a Gordian knot, given that the Commission considers that the ZTO lacks a compelling or contemporary policy rationale.

If the ZTO is nevertheless retained, it should remain a minimalist financial support measure to reduce its adverse impacts. A pragmatic approach would be to limit it to *very remote* areas, where the cost of living most clearly exceeds living costs in the rest of Australia, and where access to services is most difficult and barriers to mobility are most acute. This would at least make the measure's eligibility criteria more compatible with its claimed objectives, a good design principle for any program.

The ZTO should be provided as a fixed offset at the current special area rate (\$1173 a year) for all *very remote* areas. The concession should be streamlined further by abolishing the current complex system of dependant rebates. And the boundaries for eligibility should be redrawn accordingly, using the remoteness classifications published by the ABS.

A ZTO only for *very remote* areas, provided at the special area rate, would reduce the number of concession rates from three to one and trim 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 about \$70 million.

Remote area income tax concessions for businesses?

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

Place-based business tax concessions (for example, lower payroll tax for businesses in regional areas) are often predicated on encouraging businesses to relocate to support regional development, or to reduce congestion in cities.

There is no credible case for the Australian Government to provide company tax offsets to businesses in remote areas. In general, attempts by governments to create a sustainable advantage for a community that it does not already possess, or to divert economic activity from one place to another, impose economy-wide costs that outweigh any local benefits.

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

Centralised decision-making has a poor track record of spurring successful regional economic development, both in Australia and overseas. The diversity of regional areas, the issues they face, and their different strengths and weaknesses, all mean that top-down policy initiatives, such as tax concessions, are rarely effective.

Such concessions lack transparency and add complexity to the tax system. Moreover, their legality at the Commonwealth level could be tested, and if so, they risk falling foul of the Australian Constitution.

There are more effective and less distortionary ways for governments to support businesses in remote areas. These include, for example, removing unnecessary regulatory impediments to 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 [ZTO] 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. (Cox et al. 1981, p. 29)

The objective of the RAA is to compensate for the higher cost of living in remote regions. It is paid 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; 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. Zones eligible for the RAA are a subset of those eligible for the ZTO and exclude ordinary Zone B (figure 6, 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 Territorians over the age of 15 years in receipt of the payment (figure 6, panel B). Half of all RAA recipients fall within areas of the highest socioeconomic disadvantage (figure 6, panel C) and two thirds of recipients are Indigenous Australians. This means that even small changes to the RAA could have a significant cumulative impact on some communities.

Other notable characteristics of RAA recipients include:

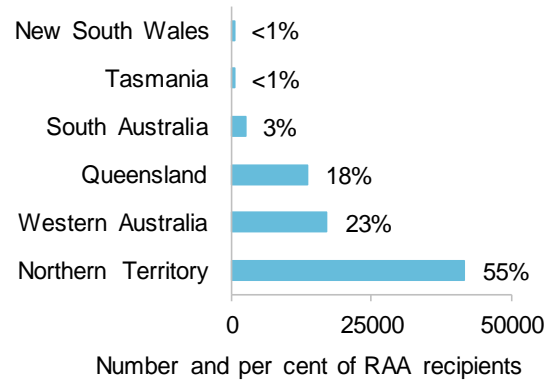
- the majority are in receipt of either the Newstart allowance, age pension, disability support pension or parenting payment
- just over half have been in receipt of an income support payment for over five years
- fewer than one in ten had employment earnings in the fortnight prior to being surveyed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

Figure 6 A snapshot of the RAA

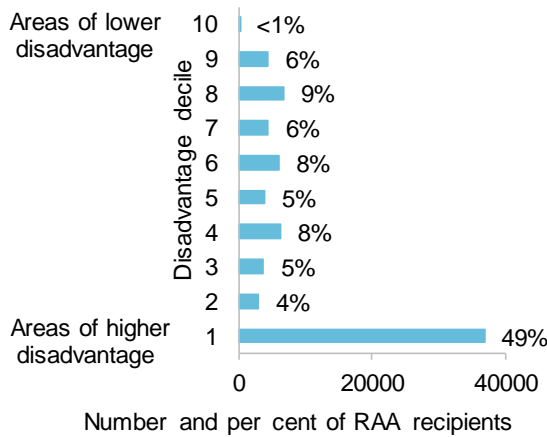
A. Current RAA areas



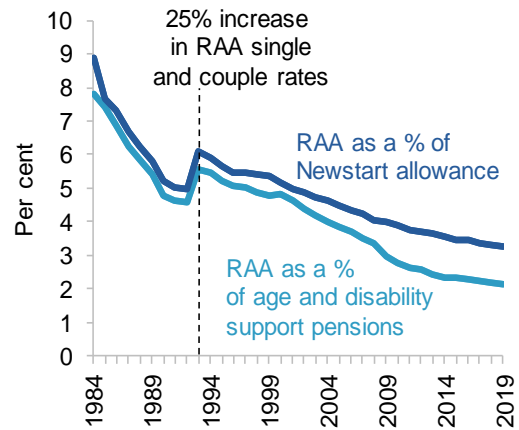
B. Most RAA recipients live in the NT



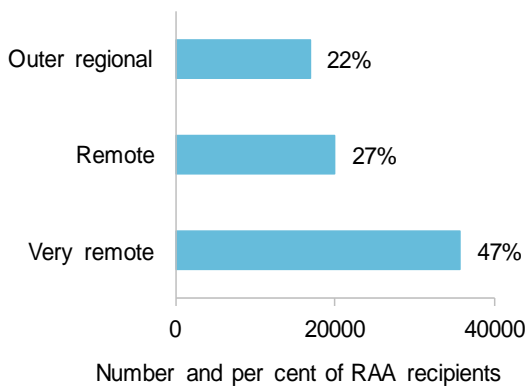
C. Most RAA recipients live in areas of high disadvantage



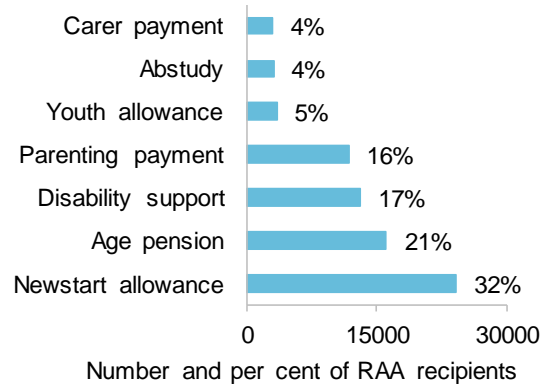
D. The RAA has been falling in real value



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



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



Is there a contemporary rationale for the RAA?

The RAA is premised on income support recipients in remote areas being disadvantaged by relatively high 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.

There are features other than higher costs of living that also demarcate the difficulties of living in remote Australia from those of living in non-remote Australia. Access to key services is particularly challenging, for reasons of both availability and cost (in money and time), for communities in *very remote* areas that are far from major population centres.

As with the ZTO, higher living costs (and less ready access to services) per se do not justify government compensation. However, there are two important differences between the ZTO and the RAA, and between their recipients, that sway the balance towards retaining a RAA in some form while abolishing the ZTO.

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 in remote areas are generally more likely to face impediments to moving locations than those in jobs. The latter reflects that:

- social and cultural connections and personal circumstances can ‘anchor’ people to places. This is particularly relevant for Indigenous Australians in remote areas, who constitute nearly two thirds of all RAA recipients. Indigenous Australians in *very remote* areas are much less mobile than non-Indigenous Australians, largely as a result of familial and cultural ties (figure 1)
- people on a very low income in remote areas, which would include some RAA recipients, tend to be less mobile than those on a higher income. The older age distribution of RAA recipients (one third are 55 years old or over) may also make them less mobile than ZTO beneficiaries who are typically of working age
- in some particularly remote places, land and housing markets can be highly illiquid, geographically tying home-owning residents to the area. And RAA recipients with a continuing need for social housing and who wish to relocate to a new area may face the challenge of losing their accommodation and entering the queue in another 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 restrict their effective choice of where to live relative to most ZTO beneficiaries. This, together with the absence of a market mechanism of recompense for higher living costs and lower access to services, provides a policy basis for a geographically-based supplementary income support payment like the RAA.

However, it is far from a perfect payment — some people *would* have the capacity to move, others might face relatively low costs of living due to their preferences, and others might have higher costs. But no social security payment can be finely calibrated to each person. In the case of the RAA, there are enough people in roughly similar circumstances to justify a premium.

The unique conjunction of circumstances relating to the RAA does not apply elsewhere, and the Commission does not see a broader case for geographically-based income support payments.

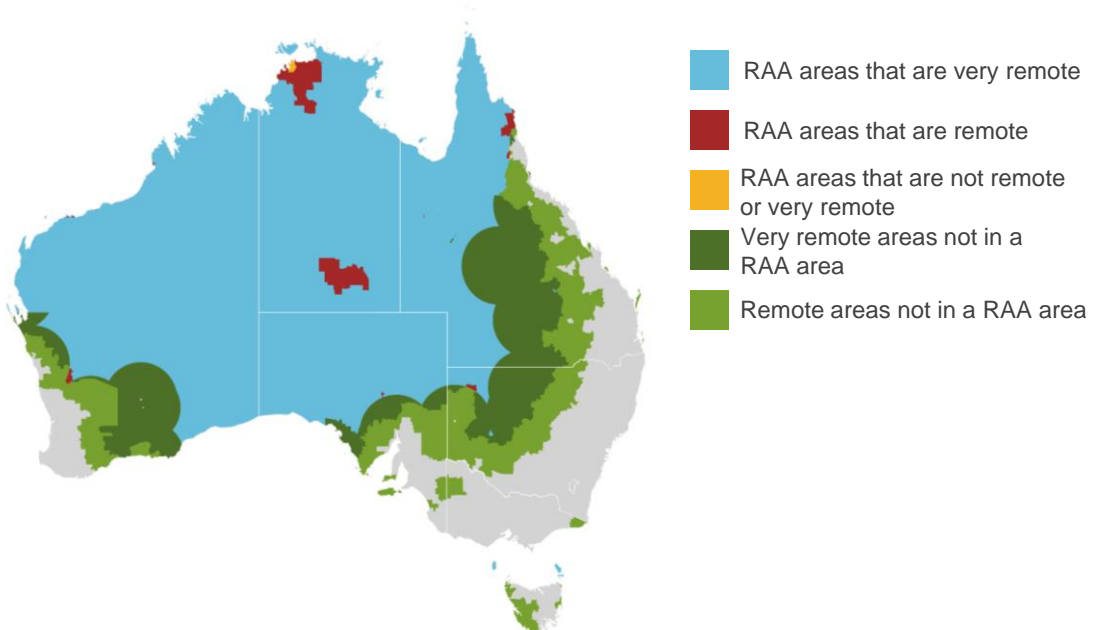
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The boundaries should be updated

As with the ZTO, the RAA zones do not reflect contemporary definitions of remoteness. Inevitably, this gives rise to anomalies in the boundaries.

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 west of Western Australia, the south east of South Australia and the west coast of Tasmania (figure 7). On the other hand, Darwin is classified as *outer regional* rather than *remote* by the ABS, but Darwin residents are eligible for the RAA.

Figure 7 **RAA areas do not reflect contemporary definitions of remoteness**



The draft report expressed a slight preference for updating RAA boundaries to ABS *remote* and *very remote* areas. However, further analysis has prompted the Commission to recommend that RAA boundaries be aligned to ABS *very remote* areas only.

- Living costs in *very remote* areas are significantly higher than those in *remote* areas (which in some cases are not much different to those in capital cities).
- People in *very remote* areas have less ready access to hospitals, schools, retail facilities and other services.
- Recipients in *very remote* areas, particularly Indigenous Australians, tend to be less geographically mobile.
- *Very remote* areas tend to have greater levels of socioeconomic disadvantage and be less resilient to adverse economic changes than *remote* areas.

Targeting the RAA boundaries to *very remote* areas would exclude an estimated 25 000 (annual) recipients in Darwin and a further 33 000 people living in places like Alice Springs (Northern Territory), Karratha (Western Australia), Katherine (Northern Territory), Mt Isa (Queensland), Port Hedland (Western Australia) and Roxby Downs (South Australia). Overall, it would decrease the number of people eligible for the RAA by a net 46 000.

Boundaries should be adjusted when the ABS remoteness definitions are updated (currently on a five-yearly basis).

RAA payment rates 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 in real terms and as a share of the primary income support payment have fallen. 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 6, panel D).

The Australian Government (through the Department of Social Services) should initiate a process for setting new payment rates for the RAA.

In revising the payment rates, the Government should aim for coherence between the RAA and the broader income support system. Among other things, it should take into account the availability of measures such as Commonwealth rent assistance, allowances for isolated children and the relocation scholarship that help to address the difficulties of living in remote areas. It should also consider the disincentives to work that the RAA could engender — particularly in the context where the ZTO is abolished (as recommended by the Commission).

As with other income support payments, the Government also needs to consider the appropriate trade-off between the adequacy of RAA payment rates and the forgone benefits

from spending on other priorities. And it should take into account the impact of technological and economic advances that alter the nature of remote living. Australia's regions are always changing. This makes it important to periodically review not only RAA payment rates but also the administration of the RAA itself.

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 those excluded 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 FBT concessions take two main forms:

- exemptions, whereby the good or service is not subject to any FBT
- partial concessions, where the taxable value of the good or service is reduced for FBT purposes.

Subject to eligibility criteria (box 1), which are partly linked to the ZTO boundaries, 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 mortgage interest payments, attract partial concessions where the taxable value is reduced, often by 50 per cent.
- Temporary accommodation, meals, and transport for FIFO and drive-in drive-out employees (hereafter 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.

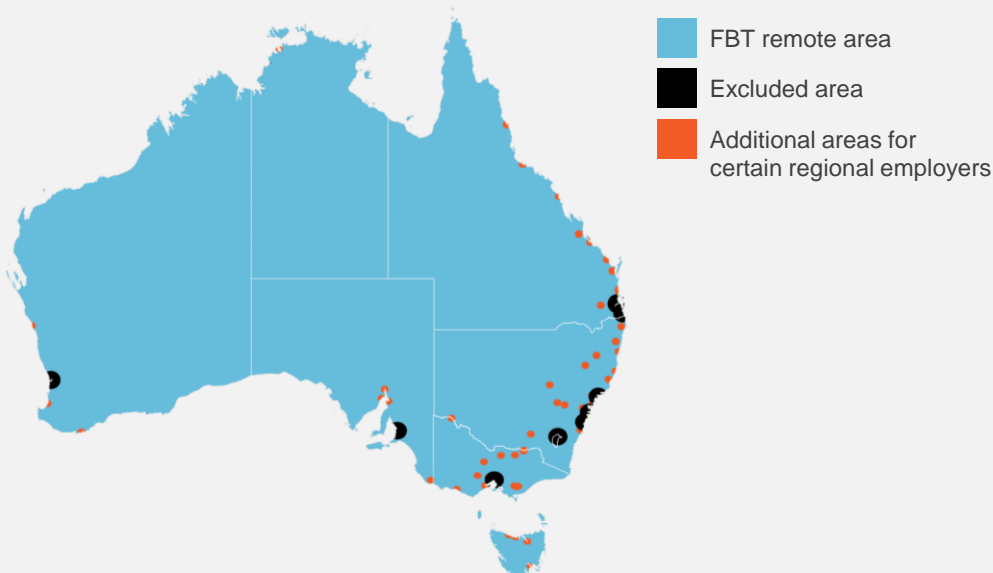
Box 1 Eligibility criteria for the FBT remote area concessions

Eligibility criteria for FBT concessions 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 — by road, as they existed in 1986 — 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 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 (ZTO) 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.
- 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 some 97 per cent of the Australian landmass (the blue area on the map below). 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.



Although 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. Most FBT exemptions used for FIFO workers can be claimed by employers irrespective of geographic location.

The use and economic effects of FBT concessions

There is no central data source on the use and fiscal cost of FBT remote area concessions. Employers are not required to report exempt goods and services to the Australian Taxation Office (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.

The Commission has therefore had to draw on a range of sources — submissions, surveys of the mining, agriculture and government administration sectors, and cameos — to fill the data gaps and shed some light on the use of these concessions, their economic impacts and potential costs to government.

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

The evidence gathered by the Commission suggests that the exemption for employer-provided housing (as an employee's usual place of residence) is the big-ticket item. This exemption is uncapped and can be worth many thousands of dollars at the employee level (figure 8). 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 (of zero per cent) on exempt housing. The tax savings from the exemption are also higher than those associated with a partial concession.

Figure 8 Tax savings from the housing exemption are much greater than from the partial concessions^{a,b,c,d}

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



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 concession (50%): \$851



Jack'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 concession (50%): \$3 666

^a For employer-owned property, 'housing costs' would be the equivalent market rent (less any employee contributions). ^b In these examples, a partial concession is a 50 per cent reduction in taxable value of the total housing costs. ^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 2018-19 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 Bowen Basin and Central Highlands in Queensland — and in industries such as mining, agriculture, and public services (including hospitals, police and local government) (figure 9).

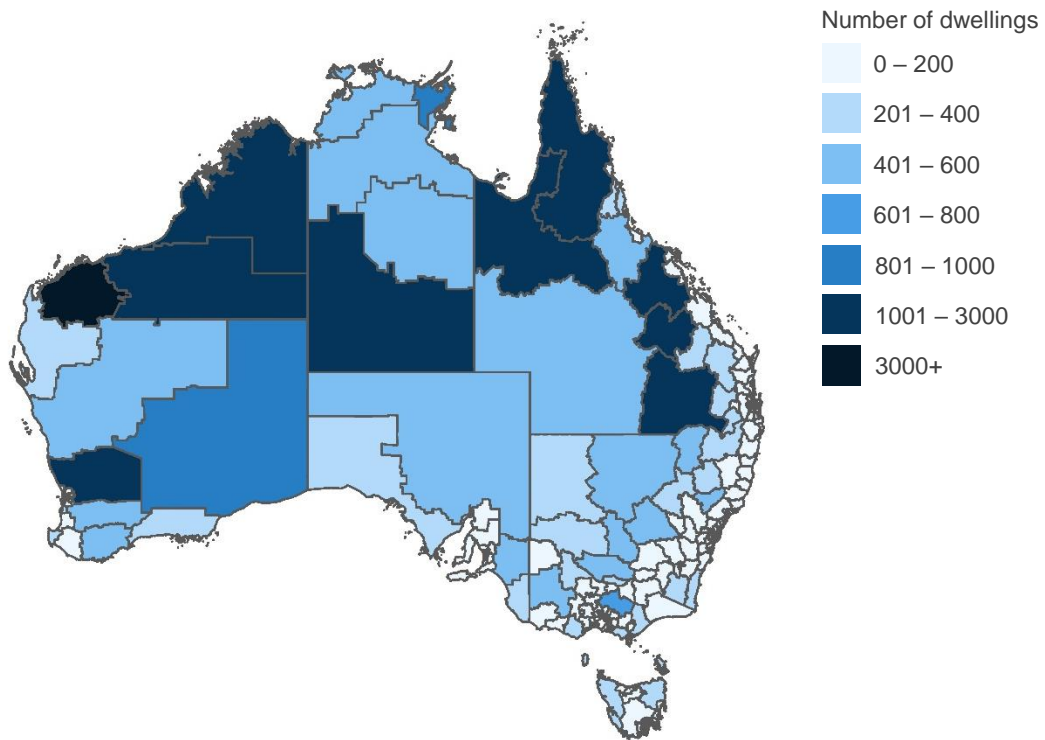
The Commission estimates that there are about 42 000 employer-provided dwellings used as an employee's usual place of residence in the FBT remote areas, with the cost of the exemptions (in terms of forgone tax revenue) ranging between \$300 million and \$390 million per year.

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.

While the use of employee-sourced housing concessions is more difficult to estimate, these are likely to be concentrated in the same industries and areas as employer-provided housing. The total fiscal cost of these concessions is expected to be much lower than the cost of the exemption for employer-provided housing, given their lower usage and smaller tax savings to employees.

Figure 9 **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 sustainability of townships is threatened by large-scale FIFO practices, and that FBT concessions for FIFO workers contribute to this effect. Regional authorities said they 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.

FIFO is generally the preferred approach to managing the construction phase of projects in remote areas because of the temporary spike in employment and the difficulty of sourcing skilled construction workers locally. It is generally too expensive (and unreasonable) to require employees to change their residence for a short period.

During the operational phase, other economic and social factors are at play. 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. To the extent that FIFO options are a part of businesses' broader strategies for staff attraction and retention, FBT concessions are unlikely to be a determining factor.

Other concessions are much less significant

The use of other FBT remote area concessions (such as those on residential fuel, meals for primary production employees, and holiday transport) is relatively limited. Their collective fiscal cost is estimated to range between \$30-\$130 million per year.

Assessment of the FBT tax concessions

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 provide regional assistance by giving employers greater financial capacity to attract and retain employees, or both.

The different views on the intent of remote area tax concessions among study participants give rise to different perceptions of their effectiveness.

For those who see the role of the concessions as a regional assistance measure (by promoting regional economic development or supporting service delivery), the concessions are too difficult to access (particularly for small business) and fail to attract people and investment to remote areas. For others who see the concessions as a way of correcting for inequities in the FBT regime, there is staunch opposition to any tightening of the current concessions, especially for FIFO.

Tax concessions in general have inherent drawbacks, regardless of the objective they are intended to advance. They are less transparent than direct government outlays, subject to little public scrutiny and review, and introduce complexity into the tax system. These significant drawbacks led the Henry Tax Review to recommend that programs should not be delivered as tax concessions 'unless there is a clear countervailing benefit in terms of efficiency, equity, complexity, sustainability and policy consistency'. The Commission concurs with this view.

Some concessions 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. Differences in costs for businesses created by discriminatory tax treatment also encourage inefficient investment decisions.

In the absence of broader changes to the FBT regime (such as taxing fringe benefits in the hands of employees rather than employers), remote area concessions are the most direct and practical way to address equity concerns with the FBT. These concerns hinge 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 to perform employment duties, and can be readily purchased by the employee themselves — there is no case for an FBT concession. Equitable tax treatment would require employees to 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.

But current concessions err on the side of being overly generous ...

Full exemptions for employer-provided housing (as usual place of residence) are available across much of Australia. Notwithstanding 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 accommodation as a ‘usual place of residence’, in contrast with short-term temporary accommodation, would typically be considered private in nature.

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 also 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 zero 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. Consequently, it is conceivable that individuals could be benefitting from the exemption in places like Townsville, Cairns, Darwin, or Byron Bay, and in some cases for high-end properties.

The cost advantage created by these arrangements also has economic efficiency implications. Economic output is likely to be lower, as investment decisions are distorted by artificial cost advantages. Further, there is little transparency attached to these measures, with minimal reporting of the concession and no reporting of the exemption to the ATO.

... and are poorly targeted to regional assistance goals

Using one policy instrument to address inequities in the FBT regime and to pursue regional economic development objectives inevitably leads to conflicts between these two objectives. As an illustration, FBT exemptions for FIFO workers, while warranted to address inequities in the FBT regime, can run counter to regional economic development objectives by discouraging people from settling in regional communities.

The concessions’ current boundaries encompass about 97 per cent of Australia’s landmass. Broad boundaries may be appropriate from a tax equity perspective, as a way of covering areas where employers may have an operational requirement to provide certain benefits to their employees. However, this also means that they are ineffective at targeting particular regions for economic development. Economic development policies are more likely to be

cost-effective when they focus on harnessing the capability and locational advantages of particular communities or regions.

The Commission also does not consider that there is a clear benefit to using tax concessions rather than direct government spending to support the delivery of public services in regional and remote Australia. These concessions, by virtue of being applicable across most of Australia's landmass, make it difficult to take into account the specific service needs of regional and remote communities. They also carry the significant drawback of obscuring the cost of delivering public services in regional and remote areas.

A more targeted approach is warranted

The FBT remote area concessions, as they are currently designed and administered, do not address either of their purported objectives effectively.

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.

Improving tax neutrality for remuneration provided as goods and services in remote areas would not only strengthen the integrity of the tax system, but also foster more efficient investment decisions by reducing artificial cost advantages afforded to some businesses through FBT exemptions and concessions.

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 such fundamental reform, 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 identifying what form it should take.

In doing so, compliance and administrative costs must be balanced against tax neutrality goals. For low-value items, the compliance costs associated with a partial concession may outweigh the tax neutrality benefits. As such, exemptions may be warranted. However, where the concessions are more material (as they are for housing), higher compliance burdens are justified on tax neutrality and integrity grounds and by efficiency considerations.

Exemptions for employer-provided housing should be partly wound back

Given the considerations above, the Australian Government should change the exemption for employer-provided housing (as usual place of residence) to a 50 per cent concession (as it was prior to 2000), and tighten eligibility rules. Moving to a 50 per cent concession would

improve the tax neutrality between employer-provided housing and wage income — it makes the effective tax rate on employer-provided housing 30.7 per cent, which is close to the marginal income tax rate that most employees in employer-provided housing face. Such a change would reduce the incentive to use employer-provided housing in cases where it 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, without penalising employers in cases where it is a requirement (with rare exceptions).

In changing the remote area employer-provided housing concession, there is also a case for increasing the reporting obligations of employers that use the concessions. The relatively high value of these concessions warrants at least some additional reporting to the ATO to enhance its capability to administer the concessions and enforce compliance. At a minimum, such reporting should include brief details about the number and location of houses provided.

Eligibility rules should be tightened

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 Australian 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.
- Equally, given that the additional areas for ‘certain regional employers’ are more populous towns, the need to provide accommodation for operational reasons is less credible.

If, after implementation of these reforms, the ATO had lingering concerns about misuse of the concessions, there would be merit in the Government considering a cap on the FBT remote area housing concessions.

Effects of changing the FBT remote housing concession rules

Changes to the FBT remote housing concession rules can be expected to have some local and broader effects.

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 \$150–195 million in FBT (appendix C).

In practice, employer behaviour could be expected to 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

Changing from an exemption to a partial concession would increase compliance burdens. It would require employers who were previously using the housing exemption provisions to submit FBT returns. 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 more likely to be larger businesses that can be expected to already have FBT reporting systems in place. As such, the incremental compliance costs to them are unlikely to be substantial.

Further, while it is difficult to determine the value of housing provided to employees where housing markets are absent or thin and volatile (such as on a remote station or mine site), the Australian Government could mitigate this problem by developing simplified valuation methodologies in consultation with stakeholders.

On balance, the Commission considers that the additional compliance costs associated with its recommendation are more than offset by the benefits of more equitable tax treatment and a broader improvement in the integrity of the income tax system. While compliance costs should be the minimum necessary to achieve a particular objective, minimising compliance costs should not be the primary objective of an FBT regime; this principle applies to the tax system generally.

Regional employment

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 employment in some remote areas, shifting employment to other places.

These effects are generally likely to be small. In areas where employer-provided housing is most prevalent — such as the Pilbara — there may be discernible effects on local employment levels and housing markets. However, even in the Pilbara, the total tax savings

associated with the current exemption for employer-provided housing (which are estimated to be in the range of \$30-50 million) are small relative to the economic output of the region.

Overall, 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. While they may be modest, shifts in the location of employment and activity prompted by changes to FBT should not be seen through a negative lens, as these shifts will typically *promote* efficiency and overall community wellbeing.

Other types of remote area concessions could also be better targeted

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

- remove the current partial 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. There is scope 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.

The impacts of these proposed changes are expected to be contained, as these concessions are narrowly used and provide small tax savings.

The FBT remote area boundaries should be updated and simplified

Geographical restrictions that apply to FBT remote area concessions are a comparatively simple, objective and intuitive way of approximating those circumstances where an employer needs to provide a good or service for operational reasons (such as remote area housing). However, they are not without their drawbacks. 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.

Discarding boundaries altogether 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, there is a risk that usage could expand markedly in the absence of boundaries. It is unlikely that compliance could be adequately enforced without boundaries, particularly given the limited information currently reported to the ATO on taxable fringe benefits.

On balance, in view of the risks associated with removing the boundaries, the Commission considers that boundaries should be retained. That said, the current boundaries are outdated and overly complex. They are based on measures of population from the 1981 census and road distances in 1986. Since then, population growth has meant that some areas once classified as remote for FBT purposes are no longer remote, while others with population decline have become remote. The reliance on a 1986 road map also adds to the complexity of administering and complying with the concessions.

At a minimum, the boundaries should be updated to reflect populations as of the 2016 census and contemporary road infrastructure. Subsequent updates should be preceded by sufficient notice, and could involve a ‘two strikes’ system by which eligibility is only adjusted after confirmation in two consecutive censuses. This approach would provide some stability for business planning purposes and minimise undue disruptions for employers and their employees.

Implementation issues

The Commission has proposed substantial changes to the design of FBT remote area concessions (table 2), which raise implementation and transition issues.

To enable a smooth transition, the Australian Government should introduce the Commission’s suite of recommendations with a delayed start date (for example, after two years), to provide time for current users to adjust and restructure their business affairs. Announcing the changes in advance would also give governments time to implement any measures required to ensure continuity of services, in cases where those services are adversely affected by the changes.

Table 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)). • Develop valuation methodologies for remote area housing. • Collect data on use of the concession.
Employee-sourced housing	Partial concessions on other forms of housing assistance in designated remote areas (FBTAA, s. 60 and Divisions 14A, 14B)	<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.
Boundaries for the concessions	Based on 1981 populations and 1986 road distances. Different population thresholds apply in ZTO zone and non-zone areas.	<ul style="list-style-type: none"> • Update the boundaries to reflect 2016 census populations and contemporary road infrastructure. • Align population thresholds at 40 km from communities with populations of 28 000 or more and 100 km from communities with populations of 130 000 or more (as they currently are in the ZTO zones). • Periodically update the boundaries using a 'two-strikes' rule to determine whether communities fall in or out of eligible areas.

Measures to mitigate adverse impacts

The case for financial compensation to mitigate adverse effects of the proposed reforms is weak. The reforms do not levy a disproportionate tax liability on businesses in remote areas — they remove an overly generous concession and, in turn, better align the tax obligations of remote area employers with those in the rest of Australia. Overall, this makes the tax system fairer.

There is a possible exception for service delivery organisations. These organisations have an obligation to deliver public services — such as health services, education, policing, and general municipal services like waste collection — to people living in the FBT remote areas. Reducing tax savings from the concession and removing the additional areas for ‘certain regional employers’ increases the cost of providing these services, with State, Territory and local governments left to make up the difference. If they fail to do so, this could affect the level and quality of public services that are delivered.

The Commission estimates that the ‘morning after’ increase in FBT on employer-provided housing (as a usual place of residence) for key affected sectors — public administration and safety, education and training, and health care and social assistance — could be between about \$45 million and \$60 million. In practice, employer behaviour would change in response to the new policy in ways that may lessen the financial impact on these sectors.

Larger Australian and State and Territory government agencies will have some capacity to raise revenue to replace the (implicit) funding provided by the concessions. Local governments’ ability to mitigate the impacts on public service delivery could be more constrained, given their budgets and limited revenue-raising capacity.

There is a case for the Australian Government to consider providing some of the assistance it currently provides (non-transparently) through the FBT concessions in other ways. If the Australian Government adjusts the funding of service delivery agencies, general revenue assistance paid to State and Territory governments would be an effective way of doing so.

This form of assistance is untied, and therefore flexible enough for State and Territory governments to direct it to those services or local government areas that are most affected. From an administrative viewpoint, it is simpler to negotiate (relative to options such as specific purpose grants) and transparent (in contrast to carve-outs for particular agencies).

Alternative mechanisms to support remote Australians

The terms of reference for this study direct the Commission to consider if there are alternative mechanisms to better support Australians residing in specified geographic areas.

Many government programs already look to address disparities in the cost of, or access to, services or infrastructure between different parts of Australia. For example, as mentioned earlier, the Australian Government provides additional payments to doctors to work in

remote areas, and subsidies for the supply of some utility services like telecommunications. These types of programs exist in addition to Australia's system of horizontal fiscal equalisation, which seeks to give each jurisdiction the fiscal capacity to provide a similar level of public services, and notably takes into account the higher per capita expenditure on service delivery in remote areas. Governments, particularly at the State and Territory and local levels, also have programs to support regional economic development.

The Commission has not sought to endorse any specific alternative use for the tax revenue that would be gained by abolishing or reconditioning the ZTO and tightening the FBT remote area concessions. Whether, and in what form, to provide support for residents of regional and remote areas will depend on governments' priorities, as well as an assessment of the relative effectiveness of different measures.

The issue of regional development involves complexities beyond the scope of this study. The diversity of regional communities, the issues they face, and their different strengths and weaknesses all mean that there are few common solutions; a program that works in one area may be counter-productive in another.

There have been many examples of parlous and ineffective programs. While these examples are not reasons to reject regional development policy per se, they provide reason for caution and furnish some 'do not do' imperatives, such as politically motivated handouts that do not draw on any natural advantages of an area.

On the positive side, policy development needs to acknowledge that local communities frequently have a superior capacity to identify their goals, issues and solutions than higher levels of government, though not necessarily the funds or collective information to make the best investments. That implies a role for State and Territory governments to lead regional development initiatives, as those governments are likely to be the stakeholders with the greatest access to local information, the ability to trade off alternative investments, and the best incentives to make good decisions. The Australian Government can play a role in the limited circumstances where a national approach is required and where cross-jurisdictional coordination is helpful.

Accordingly, while success is not guaranteed, higher level governments should look mainly to help regions harness their existing capability and locational advantages — rather than trying to relocate economic activity around the country. This requires an assessment of the regional context and the region's potential for innovation, clear governance across government and private sector institutions, the development of an overall vision, and a coherent and consistent policy mix and delivery plan. Decisions about regional assistance should also be independent of political interference, and should be made as close to the ground as possible in line with local priorities.

Recommendations and findings

The broader context

FINDING 2.1

The broader context for remote area tax concessions and payments has changed considerably since the first concession was introduced in 1945. Technological advances have helped lessen the difficulties of life in remote parts of Australia. Some communities once considered isolated — such as Cairns and Darwin, which had populations of 16 600 and 2500 (in 1947) respectively — are now well-developed, internationally-connected cities with populations near 150 000. Their residents can no longer be considered isolated.

FINDING 2.2

Remote Australia is home to 2 per cent of the national population. In general, remote Australians experience lower unemployment, higher labour force participation, and (in many cases) higher incomes than non-remote Australians. But this hides major disparities within and between *remote* and *very remote* areas.

Indigenous Australians in remote Australia (who make up 28 per cent of its population) are less likely to be employed or participate in the labour market, and tend to earn lower incomes than both non-Indigenous Australians and non-remote Indigenous Australians. They also tend to be less mobile than non-Indigenous Australians in *remote* areas, and even more so in *very remote* areas.

Further, socioeconomic disadvantage is more prevalent in remote Australia than elsewhere — especially among the Indigenous population and in *very remote* areas.

FINDING 2.3

Some inherent features of remote Australia make it difficult for residents to attain a comparable standard of living to city dwellers and people in regional areas.

- The cost of living generally increases with remoteness.
- People in remote Australia typically have less ready access to services.
- Many aspects of running a business, including attracting and retaining suitably-qualified staff, are more difficult in remote Australia.

These difficulties are most pronounced in *very remote* areas.

Many remote areas also face a harsh climate and the risk of natural disasters, although these phenomena are not unique to remote Australia.

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. For some residents of remote areas, however, mobility may be constrained by socioeconomic and other factors.

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 assist individuals, businesses and communities and to facilitate development in regional and remote Australia.

The zone tax offset

FINDING 4.1

The design of the zone tax offset (ZTO) is outdated.

- The boundaries have not kept up with changes in remote Australia, and nearly half of ZTO claimants live in large coastal regional cities.
- Inflation and growth in wages have substantially eroded the value of the ZTO.

Further, there is no evidence to suggest that the ZTO encourages people to live and work in the zones.

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 through the tax system. Australians face a range of advantages and disadvantages in where they live, and can typically decide to live in the area they value most highly.

The economic development of a particular region succeeds or otherwise based on that region's advantages and disadvantages, as well as its vulnerability to economic shocks. Attempts by governments to create an artificial advantage for a remote community, or to attract people to live in high cost areas through tax concessions, are unlikely to be effective and typically result in net losses to the broader Australian community.

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

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

If the ZTO is retained, the Australian Government should recondition the offset by making it:

- available to residents of *very remote* areas only, as defined by the Australian Bureau of Statistics, with the eligible area updated after each census
- a flat rate at the existing special area rate of \$1173 a year.

FINDING 5.2

There is no case for the Australian Government to provide company tax offsets specifically to businesses in remote areas. Governments should focus on creating an environment for businesses to succeed without regard to location.

The remote area allowance

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 socioeconomic disadvantage
- two thirds of recipients are Indigenous Australians
- just over half have been in receipt of an income support payment for over five years.

FINDING 6.2

The unique conjunction of higher costs of living and less ready access to services, together with the restricted geographic mobility found in parts of remote Australia, provide a justification for the remote area allowance. The Commission does not see a broader case for geographically-based income support payments.

FINDING 6.3

The remote area allowance (RAA) zones do not reflect contemporary definitions of remoteness. Zone A is largely based on boundaries drawn in 1945, and special areas are based on town sizes as measured in the 1981 census.

RAA payment rates have not been adjusted in almost 20 years. As 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.

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 *very remote* areas, as defined by the Australian Bureau of Statistics.

RECOMMENDATION 6.2 REVISE RAA PAYMENT RATES

The Australian Government should initiate a process to set new payment rates for the remote area allowance (RAA). Revision to payment rates should be guided by the following considerations:

- coherence between the RAA and the broader income support system
- disincentives to work that the RAA could engender
- an appropriate trade-off between the adequacy of payment rates and the forgone benefits from spending on other priorities
- the impact of technological and economic advances on life in remote Australia.

Fringe benefits tax remote area concessions

FINDING 7.1

The use of fringe benefits tax (FBT) remote area concessions varies.

- The exemption for employer-provided housing (used as a usual place of residence) can provide significant tax savings at the employee level, particularly for higher-income employees, and could cost as much as \$390 million per year in forgone FBT revenue nationally. Usage is concentrated in certain areas — such as the Pilbara in Western Australia, and the Bowen Basin and Central Highlands 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 partial concessions are 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.

FINDING 7.2

Fringe benefits tax (FBT) remote area concessions help to address inequities inherent in the FBT regime, but the current concessions are not fit for purpose — they are overly generous and complex. This creates other inequities, including artificial cost advantages for some businesses which, in turn, encourage inefficient investment.

Simultaneously trying to address inequities in the FBT regime and pursuing regional assistance goals has meant that the concessions have been poorly targeted to both objectives, which are better addressed separately.

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:

- replace the exemption for employer-provided housing (section 58ZC) with 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)).

The Australian Government should direct the Australian Taxation Office to collect data on use of the concession. To limit compliance burdens, the Australian Government should develop simplified valuation methodologies for employer-provided housing.

RECOMMENDATION 8.2 REMOVE THE CONCESSIONS FOR EMPLOYEE-SOURCED HOUSING

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to remove the concessions on employee-sourced housing (section 60 and Divisions 14A and 14B).

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).

RECOMMENDATION 8.4 REVISE BOUNDARIES FOR FBT REMOTE AREA CONCESSIONS

The Australian Government should revise the geographic boundaries for the fringe benefits tax remote area concessions by:

- updating the boundaries to reflect populations as at the 2016 census and contemporary road infrastructure
- aligning population thresholds at 40 km from communities with populations of 28 000 or more and 100 km from communities with populations of 130 000 or more.

It should periodically update boundaries to reflect changing populations, giving sufficient notice to minimise disruption for affected employers.

RECOMMENDATION 8.5 ANNOUNCE CHANGES IN ADVANCE

The Australian Government should introduce legislative changes to the fringe benefits tax remote area concessions with a delayed start date (for example, two years from when they are legislated).

FINDING 8.1

The Commission's proposed reforms to the fringe benefits tax remote area concessions would shift some of the cost of funding public services in remote areas from the Australian Government to State, Territory and local governments. This could affect the level and quality of public services that are delivered.

General revenue assistance paid to State and Territory governments would be an effective way for the Australian Government to adjust the funding of service delivery agencies. Such assistance can be made simple and transparent while granting State and Territory governments the flexibility to direct funds to those services or local government areas that are most affected.

CHAPTERS

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. In reaching the conclusions in this final report, it has undertaken further research and considered feedback on the 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. It has also canvassed other policy measures that governments undertake or could use to provide support for regional and remote Australia.
- Prior to this study, there had been scant data published on the measures and little analysis of their effects. The study includes several empirical exercises to shed new light on the measures.
- The constitutional validity of the remote area tax concessions has long been questioned. In evaluating the merits of different reform options, the Commission has considered the risk that the tax concessions may not be constitutional.

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 near 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 had to rely on the postal service rather than email; and there was no or limited access to government services or modern comforts such as television and air conditioning. In addition, there were high marginal tax rates which meant that, where employers offered remote allowances to fill labour shortages in isolated areas, a significant portion of those allowances was captured by income tax.

In recognition of this and of 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 people 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 with 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, incorporating a loading for taxpayers with dependent children
- in 1975, converting the (pre-tax) deduction into a (post-tax) rebate — the ZTO
- in 1982, creating 'special areas' with higher rebates for especially remote areas — in essence, places more than 250 kilometres from a town of over 2500 people, as measured in the 1981 census
- in 1984, introducing the RAA, a payment for income support recipients which was intended to extend the benefit of the ZTO to other residents of remote Australia
- in 1986, introducing 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), converting the 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 2005 amendment to expand access to the FBT housing concessions and a 2015 amendment to the ZTO to exclude fly-in fly-out workers residing 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 demographic, cost of living and infrastructure changes in Australia. Key concerns are that:

- the zone boundaries still largely reflect their original (1945) design, while the special area boundaries within those zones are based on 1981 census data, and so neither set of boundaries is likely to reflect levels 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 argued that:

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

In contrast to the ZTO, the FBT remote area concessions and the 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 about 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, 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). The 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 about \$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 (remuneration in a form other than wages and salary) 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 the 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 (commonly, 50 per cent reductions in 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 cost of the RAA is about \$44 million, whereas the FBT remote area concessions could have a budgetary cost of over \$600 million.

The Commission has also looked at other government measures designed to provide support for regional and 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 FBT concessions are a small subset of the measures 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, along with 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 within those zones, whereas the RAA covers most of the same areas but not ordinary Zone B. The reach of the FBT remote area concessions is much greater — capturing large areas of states like Victoria, even though no part of Victoria qualifies for the ZTO or RAA. Consequently, the definition of ‘remote’ has been stretched much more broadly in this case.

The boundaries of the zones date back to 1945; the boundaries of the special areas, and of the FBT remote area, date from the 1980s. 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 these boundaries 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).

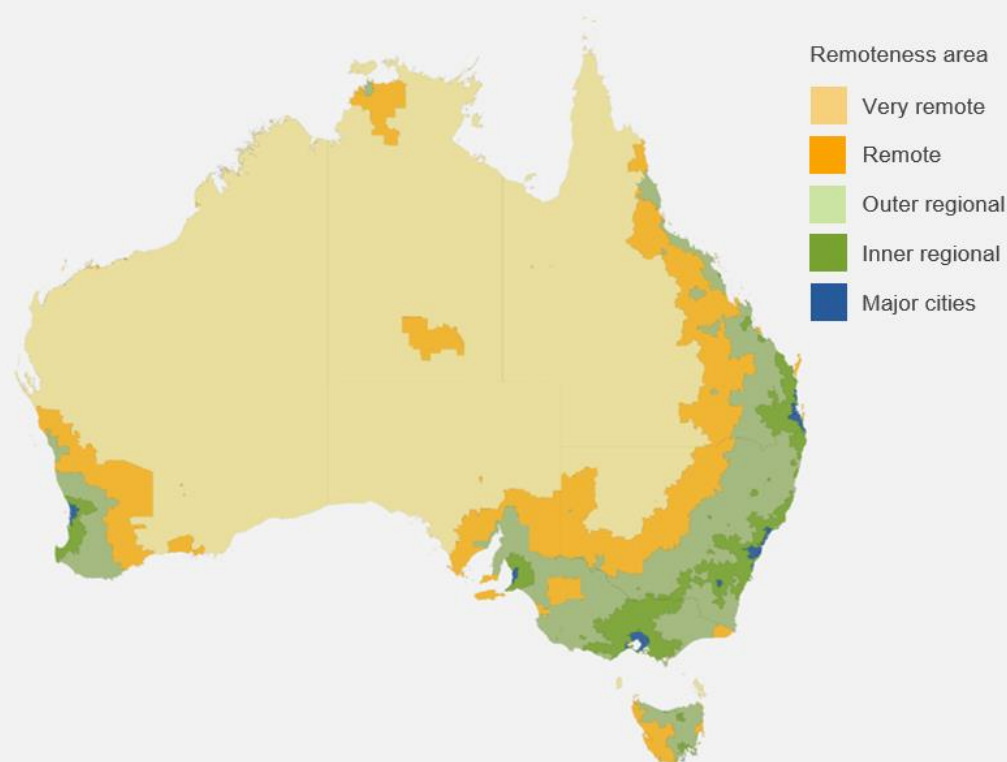
Several measures of remoteness in Australia have been developed, drawing on these concepts (box 1.2). They differ in their methodologies and granularity, and so a locality may be rated as more remote by one index than by another. Which index is preferred will depend on the purpose for which it is being used.

For the purposes of this study, the Commission has relied mainly on the remoteness areas published by the ABS. However, in formulating its recommendations, the Commission has not automatically sought to restrict the future scope of the measures under reference to areas considered remote in ABS terms. In the case of the RAA, for example, the Commission has determined that the ABS remoteness categories *are* 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 specific ABS remoteness areas in the text of this document are in italics.) This classification is based on the Accessibility/Remoteness Index of Australia (ARIA+), which defines remoteness using 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 other factors affecting 'effective' accessibility, such as the socioeconomic status and mobility of populations, or road conditions and travel times. This 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 remoteness categories. It was developed to better target incentive payments for medical staff to rural areas, and as such its focus is on helping to allocate medical resources to address disparities in service provision 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 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 the Australian 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 in several ways.

- 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.
- In September 2019, the Commission released a draft report setting out its preliminary findings and recommendations. The draft report also contained several specific requests for further information, to help close data and information gaps and bolster the analysis in this final report.
- In October and November 2019, the Commission held meetings with stakeholders in key affected jurisdictions to obtain feedback on the draft report. The Commission also received a further 101 submissions and 12 brief comments following the draft report (appendix A).

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

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 the differences between them, and of their rationales, their effects and their intended beneficiaries.

A first step was to understand 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, isolation and climate on the wellbeing of people in remote Australia. 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.
 - A tax concession intended to compensate for a particular economic disadvantage should also 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

-
- appraises the rationales put forward for the measure and 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 and considered the need to promote regional development 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 their impacts on other parts of the community — such as forgone tax revenue, increased government outlays, or displaced economic activity.

This approach was a source of criticism on the Commission’s draft recommendations, as they did not concur with the views of the bulk of participants, most of whom are direct beneficiaries of the remote area tax concessions and payments. However, the Commission assesses arguments for government measures on their merits, given the available evidence, rather than on the frequency with which those arguments are put.

In examining whether alternative mechanisms would better provide support to Australians residing in specified geographic areas, the study does not recommend any particular mechanism, as each has particular merits or demerits depending on the government’s goal. However, the study canvasses a range of measures that are currently used (chapter 3) or could be used (chapter 5) to assist people in regional areas and/or to promote regional development. Chapter 5 also discusses some considerations in determining which (if any) of those mechanisms might be warranted.

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 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’.

The arrangements have never been directly tested in the High Court. After seeking the advice of the Attorney-General’s Department on the constitutional validity of the ZTO, 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.

Several submissions to this study referenced this debate. For example, the Indigenous Reference Group to the Ministerial Forum on Northern Development said:

Prima facie, taxation mechanisms such as the ZTO, FBTRAC [FBT remote area concessions] 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)

Like the Cox Review, the Commission has sought and received legal advice and has considered the associated constitutional risk when examining different reform options.

The empirical challenge

One challenge for this study was the dearth of relevant and readily available data and previous analysis of the measures.

- Understanding the cost of living in remote Australia was a central issue in this study. However, 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.) This meant that there was 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: the 1981 Cox review. There has only been one empirical study of the ZTO's effects (Kettlewell and Yerokhin 2019), and this study solely focused on its early decades. There have been no public reviews of the FBT remote area concessions or the RAA.

Even where data can be assembled, accurately gauging the effects of the measures is not straightforward. The ZTO and the RAA are now quite small in value 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 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, CoreLogic, and the consumer advocacy body CHOICE — to build a picture of how cost of living varies across the country
- drawing on ATO tax return and ABS census microdata to build an understanding of how and why incomes vary between remote and non-remote parts of Australia

-
- 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
 - using unpublished de-identified data held 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 ABS census microdata, and the results of the Commission’s questionnaire to mining and agricultural businesses and local governments, 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).

Overall, the Commission has been able to draw on a wide range of quantitative and qualitative evidence, enriched by its visits to remote Australia and information and views provided by participants, in reaching the findings and conclusions in this study.

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 remote towns have developed into large, connected cities, and their residents can no longer be considered ‘isolated’.
 - Improved and cheaper communications and transport, air-conditioning and other advances have helped to reduce the difficulties of life in many remote areas.
 - But some places have not kept pace. In some areas, population decline has led to fewer local services and community activities.
- Today, just 2 per cent of Australians reside in remote Australia.
 - The non-Indigenous population is largely of working age and geographically mobile, with fewer retirees and 15–24 year olds than in other parts of Australia. More than 70 per cent of those over the age of 15 are employed.
 - One fifth of all Indigenous Australians live in remote Australia; they account for 16 and 46 per cent of *remote* and *very remote* areas’ populations, respectively. They are generally young and strongly tied to their country. Less than 40 per cent of those over age 15 are employed.
- Living and doing business in remote Australia still poses difficulties, making it hard for people there to attain a comparable material standard of living to city residents.
 - The availability and cost of accessing key services, such as education and healthcare, is a major concern for many people in remote Australia. Poor access to education, for example, can push younger residents towards cities in pursuit of such opportunities.
 - Although overall living costs in some *remote* areas are comparable with those in their respective capital cities, *very remote* communities generally face much higher living costs.
 - Some costs of operating a business in remote Australia (including the cost of 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. Some people have a strong personal or cultural connection to a remote area. Others are attracted by the economic opportunities, including generous remuneration packages with which employers compensate people for accepting less-than-favourable circumstances. However, some residents may feel trapped by their financial circumstances or other ties.

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 living or doing business there can be challenging and demand resilience, particularly where the effects of isolation are compounded by high living costs or harsh climates. Often this is linked to the degree of remoteness, with hardships often worse in *very remote* areas than in *remote* areas.

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 policy 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 face population or economic decline and loss of services, and some of the difficulties of remote living remain.

Understanding these changes, as well as the nature of life in remote Australia, is important when assessing the remote area tax concessions and payments. Accordingly, this chapter traces how remote Australia has evolved since 1945, and notes 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. 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 (it can also encompass the time spent travelling or the difficulty of the journey). The opposite of a remote area is an accessible one; although accessibility is not well-defined, it usually refers to the ease with which people can access the services they need. The Australian Bureau of Statistics (ABS) 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).

A note on terminology

This chapter uses italics when referring to ABS remoteness categories. For example, the ABS definition of ‘very remote Australia’ is referred to in this chapter as the *very remote* area.

Further, all references to ‘remote Australia’ in this chapter refer to ABS *remote* and *very remote* areas together, unless otherwise specified. Similarly, ‘regional Australia’ covers both *inner regional* and *outer regional* areas, and ‘non-remote Australia’ refers to both regional Australia and *major cities*.

Sources: ABS (2001); Reoch and 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 Broadly, these areas included:

- the Northern Territory
- much of Western Australia beyond the Perth region
- north and west South Australia
- far west New South Wales
- most of inland and north Queensland
- western Tasmania
- certain islands (including Norfolk Island).

At this point, 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).² 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 (ABS 1947a).

Australians residing in isolated areas faced many difficulties. Indeed, in contesting the creation of isolated area tax concessions, the federal Opposition referenced 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)

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.

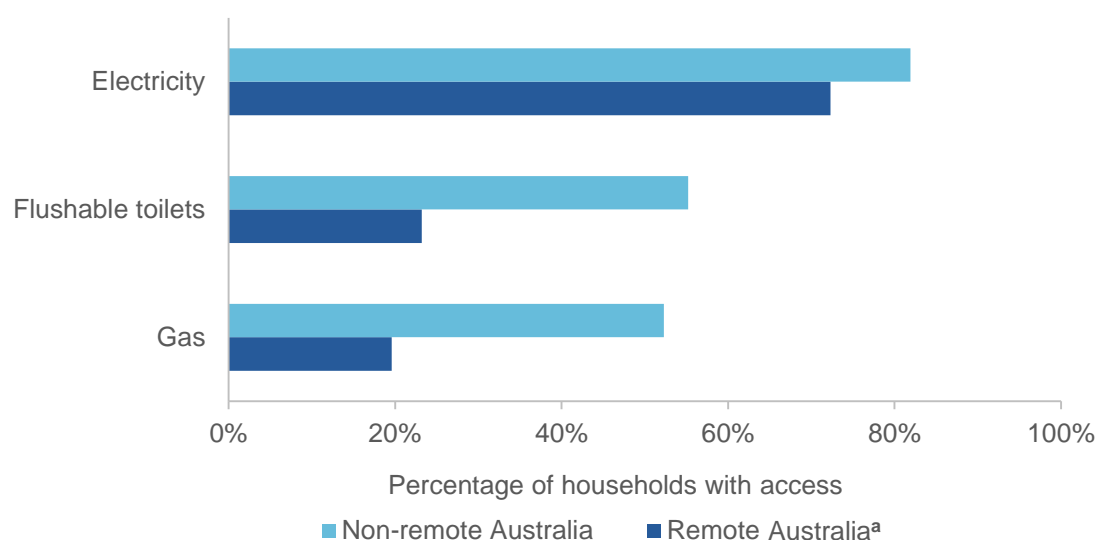
² These figures are not comprehensive because the 1947 Census excluded many Indigenous Australians.

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 1947b). Roads in remote areas were also less developed. 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 that 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 confined 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).

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 Australia’ refers to an approximation of areas eligible for the original isolated area income tax deduction.

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

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

Whereas south-eastern 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), along with the hot, arid interior of Australia 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 Indigenous people lived on missions or Government reservations; others worked as station hands for pastoral businesses, often in abysmal conditions (Stevens 1974). In some especially 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. Social reforms took place, 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 people 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 (or 6 per cent) were directly employed in the agriculture, forestry and fishing industry, a fall of 10 percentage points since 1947 (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 the process, the reviewers investigated how life had changed in remote areas between 1945 and 1981.

The report argued 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 be addressed by new technologies (such as air conditioning), albeit at a cost.

These findings did not sway the reviewers from concluding that remote areas remained at a disadvantage. Some conditions in remote areas — particularly the cost of living — were thought to have ‘deteriorated’ relative to those in cities since 1945 (Cox et al. 1981, p. 14). Submissions to the 1981 review indicated that governments had reduced the number of air, mail and train services to some remote areas, as declining populations had made some of them less viable.

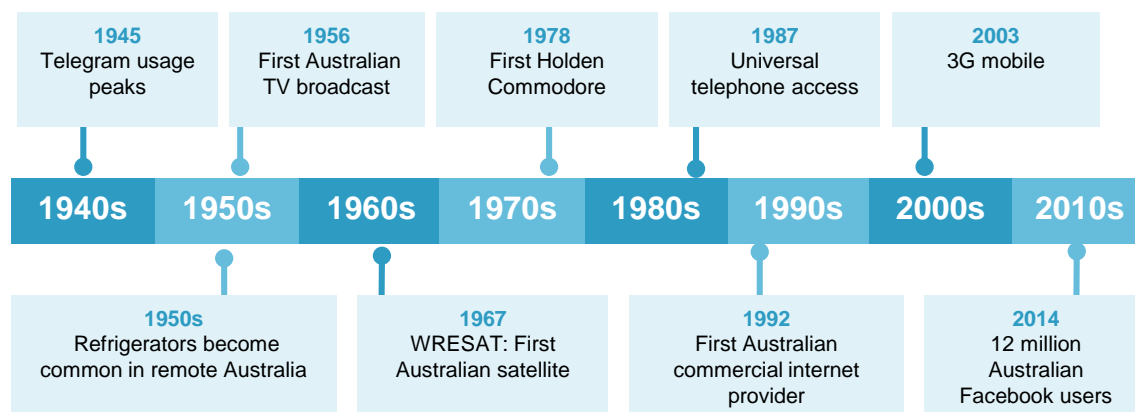
The Cox Review also highlighted increasing divergence in circumstances within the zones. It noted, for example, that conditions in Burketown and Mount Isa in Queensland were vastly different, even though each locality was eligible for the same tax concession.

Change in remote Australia has continued into the new millennium

Many of 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); NBN Co (2011); Ross (2014); Smith (2005).

Urbanisation, the process by which ever-greater proportions of Australians now live in 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 and Darwin, it is home to more than 100 000 people. Both Cairns and Darwin have sizeable airports which handle international as well as domestic flights.

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 equipment (such as satellite television, GPS and high-speed internet), portable locator beacons for emergency services, and portable diagnostic and therapeutic medical devices. Many of these advances have helped to overcome the isolation of remote life, or to assist residents in coping with adverse climatic conditions.

Of course, the tide of economic progress does not lift all boats equally, nor has the story been one of universal, continuous growth — some places grow steadily, while others experience booms and busts. Some areas have benefited more from economic development than others, and remote Australia remains 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.

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. Agricultural industries (particularly sugar cane and fruit orchards) and forestry developed through the 1800s, and by Federation the population was about 3500 people.

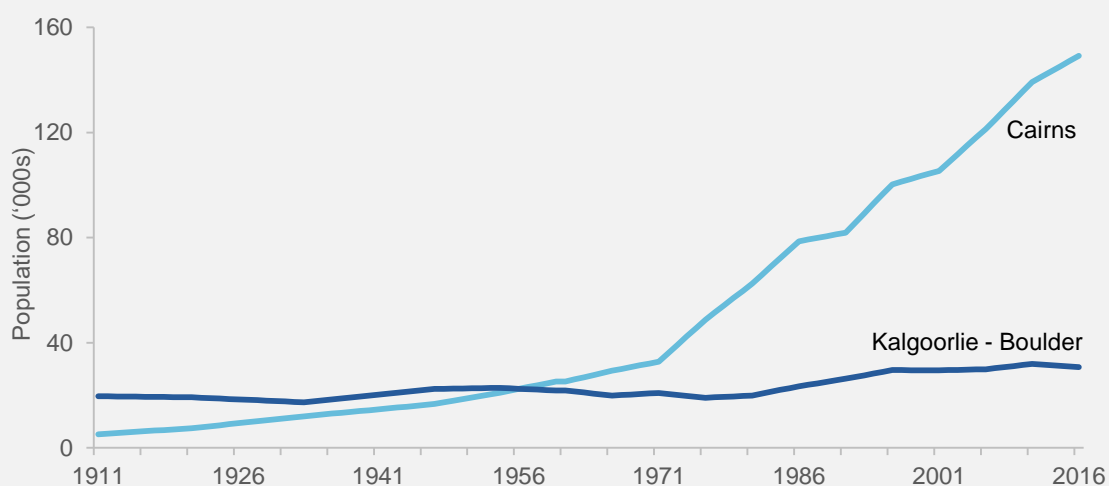
The town was connected to Brisbane by rail in 1924, and the first commercial passenger flights between Cairns and Brisbane commenced in 1930. By the 1940s, electricity, running water and radio had all arrived in Cairns.

From the 1950s, Cairns emerged further as a tourist destination (particularly over winter), largely because of its warmer climate and its 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). When the remote tax arrangements were introduced in 1945, both towns were included in Zone B, and so their residents were 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); BITRE *Airport traffic data* — June 2019; Heritage Alliance (2011).

What is driving change in remote Australia?

Change is a feature of modern life. Economic, social and environmental changes affect the opportunities people can access. In turn, these opportunities influence where people choose to reside, what kind of work they do, and how they live their lives.

While the root causes of change are not always clear, some broad observations can be made on the drivers of change for remote parts of Australia.

Economic and social change encourages people and businesses to congregate

Structural change in the Australian economy is 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. The concentration of population in cities has created deep markets allowing businesses to increase their scale, workers to specialise, technology and knowledge to be more readily shared, and competition to thrive. These factors have generated substantial gains in incomes, consumer choice and living standards. As a result, many people are increasingly attracted to (and expect many of) the amenities and opportunities that cities have to offer. This is particularly true for younger Australians; the Commission's analysis has found that, among remote Australians, the people 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 2014a, 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 where people now choose to live in Australia (BITRE 2014, p. 6). Most of these factors tend to either:

- encourage *centralisation* in larger cities — like 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 that are 'pleasant' yet accessible — hence the expansion of coastal centres such as Busselton, Byron Bay or Hervey Bay. The Commission's study on *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 without migrating (PC 2017d).

Together, these factors help to 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 (box 2.3). 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.

Box 2.3 Regional economies ebb and flow

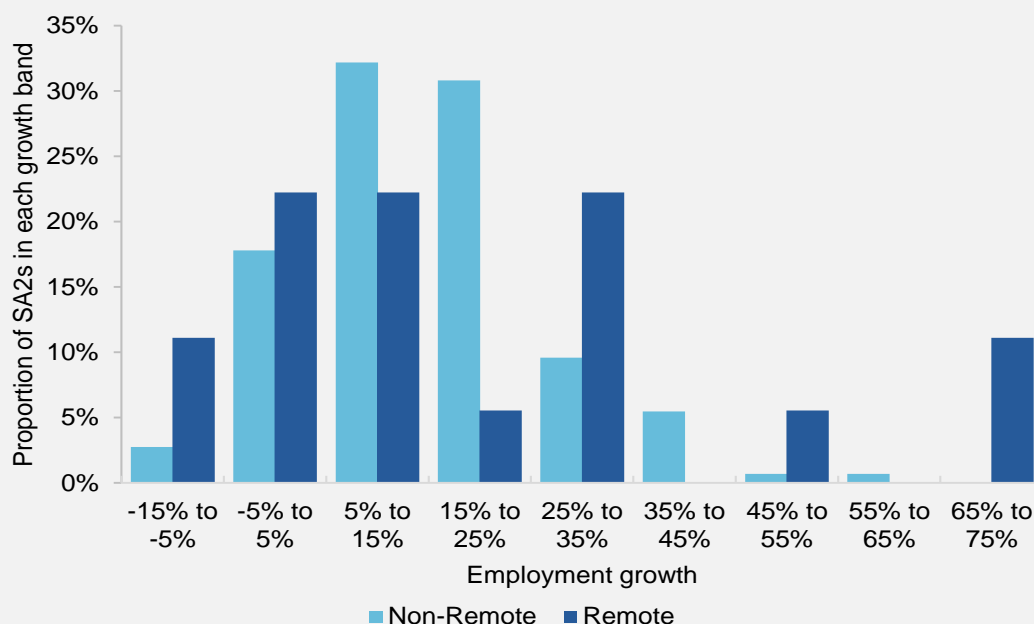
Although employment has grown steadily in Australia as a whole, not every region has shared in this growth equally; some regions have grown steadily and some have boomed, while others have seen reductions in employment.

The chart below shows regional employment growth over a 10-year period, grouped by remoteness classification (*remote* and *very remote* areas, and non-remote Australia). The vertical axis shows the proportion of SA3s^a that fall within each employment growth band (shown on the horizontal axis).

The median rate of employment growth for non-remote areas was 13 per cent, compared with 7 per cent for remote areas. Neither category experienced consistent patterns of growth, although remote Australia exhibited much greater variation — with a disproportionate number of areas experiencing either negative growth or very high (positive) growth.

These growth rates are widely dispersed for a number of reasons. Some are structural, long-term trends: for example, many of the SA3s where employment declined — including remote places like Bourke and non-remote places like Charters Towers — are dependent on agriculture (which, due to technological change, requires less and less labour). Some are cyclical, with many mining-orientated regions (like the Pilbara) seeing high employment growth in response to the recent commodity boom, although employment has shrunk in some other mining-dominated areas like Broken Hill. Regional growth has also depended on other factors, including regions' capacities to adapt to those structural and cyclical changes and their vulnerability to economic shocks.

The diversity of employment growth in remote and non-remote areas^b



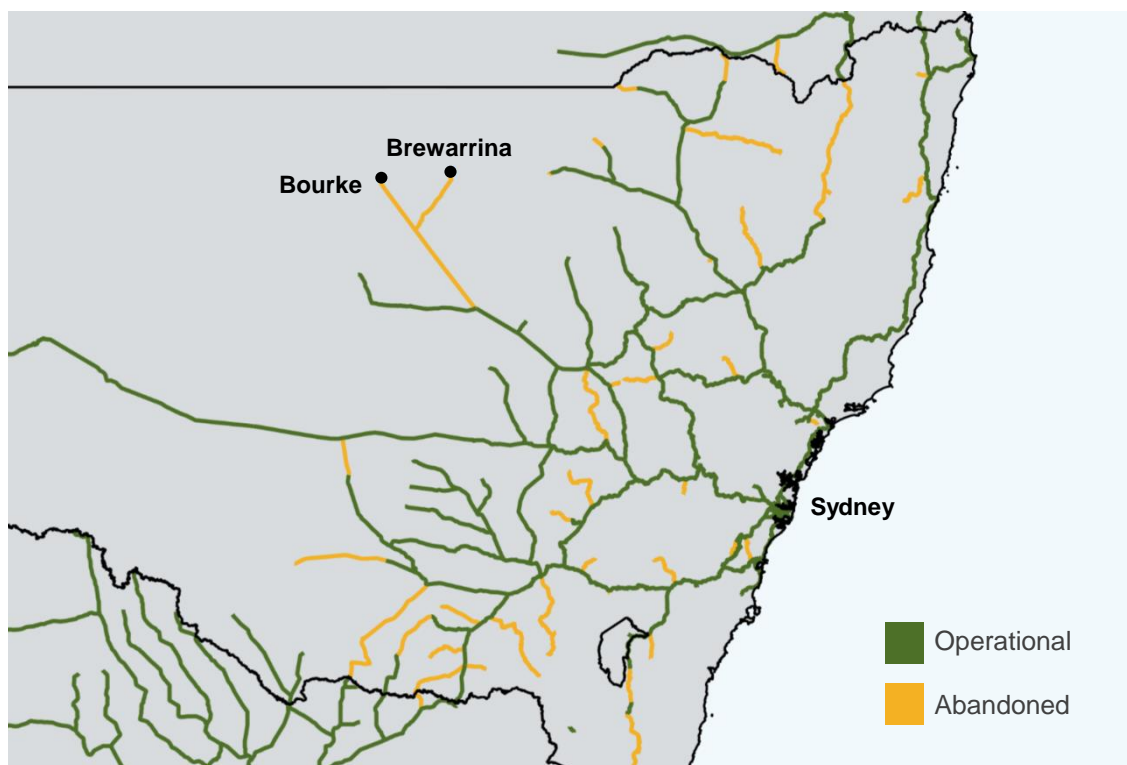
^a Statistical Areas Level (SA3) are geographic areas, typically with a population of 30 000—130 000 people. In *outer regional* and remote Australia, SA3s represent areas widely recognised as having a distinct identity and similar social and economic characteristics (ABS 2016b). ^b 10 year growth rate from the 2006 to the 2016 census, SA3s are designated as 'Remote' if a majority of their population reside in remote Australia.

Sources: Commission estimates based on: ABS (2007) *Census of Population and Housing: TableBuilder Pro, Australia, 2007*, Cat.no. 2903; ABS (2017b) *Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073; PC (2017d).

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 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 larger cities has become more important for economic development. 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.

FINDING 2.1

The broader context for remote area tax concessions and payments has changed considerably since the first concession was introduced in 1945. Technological advances have helped lessen the difficulties of life in remote parts of Australia. Some communities once considered isolated — such as Cairns and Darwin, which had populations of 16 600 and 2500 (in 1947) respectively — are now well-developed, internationally-connected cities with populations near 150 000. Their residents can no longer be considered isolated.

2.2 How remote Australia compares today

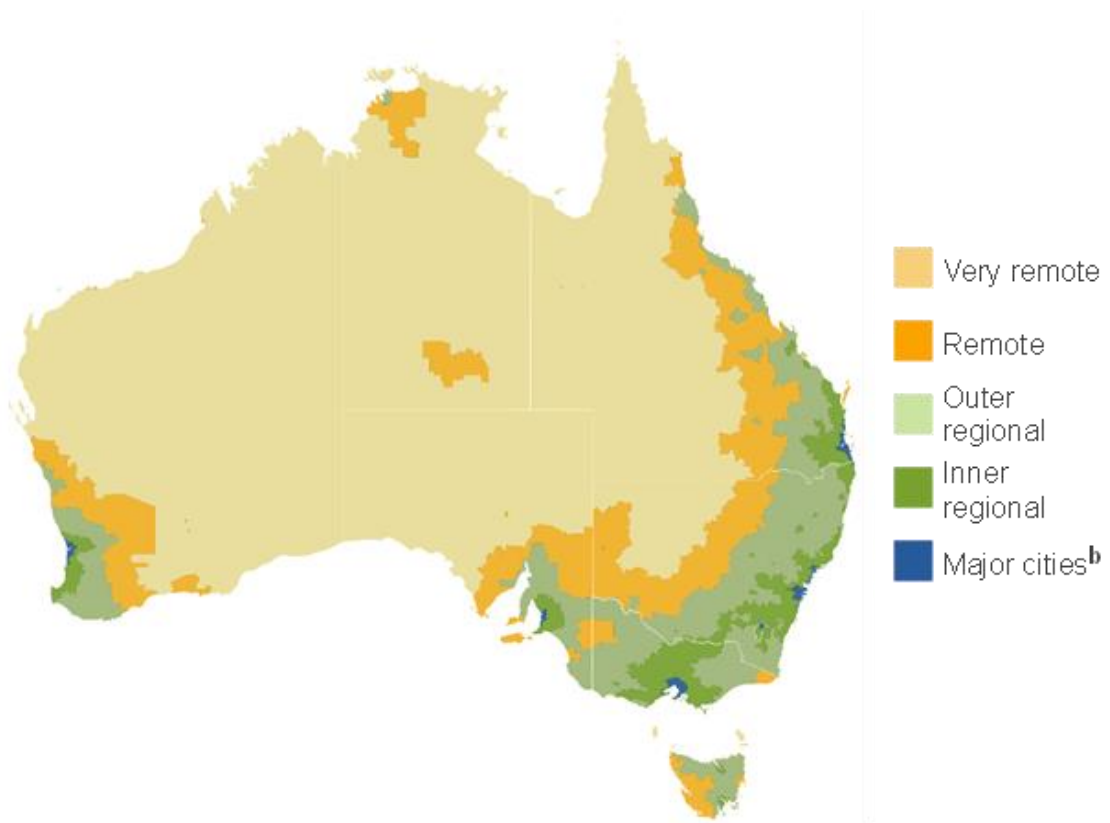
The changes (and their drivers) discussed above have led to remote Australia as we see it today. Of interest for this study is not just how today's remote Australia compares to its past, but also how life there today compares to life in other parts of Australia. It is this comparison that underpins the justification for providing 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 Cairns, Darwin, Mackay and Townsville, 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 2.4). It is impossible to tell a single story of life in remote areas. Things said about one area may not be true of 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 2.4 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 a pipeline was constructed 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 (with temperatures rarely exceeding 30°C) but humid, with relatively high rainfall (1500 mm per 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 industry booms and busts; its population reached 5000 in the past, but 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 lives in these areas. These residents are predominantly male, of working age, and younger on average than the Australian population. A relatively large (and growing) share of the *remote* and *very remote* population is Indigenous, accounting for about 28 per cent of remote Australians 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* areas, although this share has fallen over time because of population growth in *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</i>	<i>Very Remote</i>
	%	%	%	%
Under 15 years old	18.6	18.7	21.0	22.3
Working age population	67.0	61.9	66.1	69.3
Over 65 years old	14.5	19.3	12.9	8.4
Indigenous	1.5	4.9	16.0	46.0

^a Includes both *inner regional* and *outer regional* areas.

Source: Commission estimates based on ABS (*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 particularly stark in *very remote* areas compared with *remote* areas. Any depiction of the remote Australian population must canvass these differences.

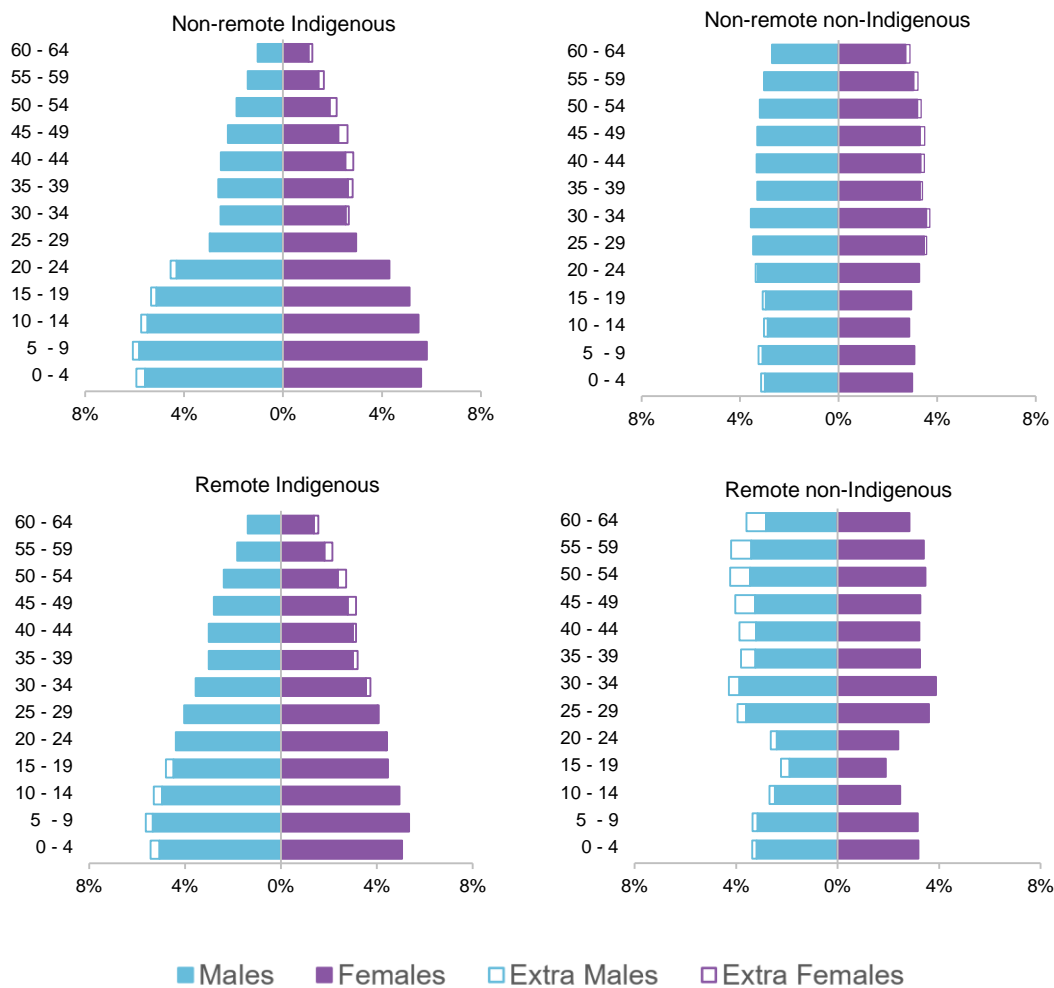
Age and mobility

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

The non-Indigenous resident population of remote Australia is largely of working age. A spike in the mid-20s age range, coinciding with the completion of tertiary education, is sustained for much of a typical working life. This trend appears to be motivated (at least in part) both by employment opportunities and by higher remuneration in remote Australia. For non-Indigenous people, median personal incomes are 36 per cent higher in *remote* and *very*

remote areas than in *major cities*, and 56 per cent higher 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 their populations towards males (PC 2014a, 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: Commission estimates based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016, Cat. no. 2073*).

The population distribution of Indigenous Australians in remote Australia 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 and mortality rates among Indigenous Australians. Further, the 'lumpiness' from the distribution

of non-Indigenous Australians is not evident, reflecting lower levels of internal migration to and from remote Australia among the Indigenous population (AIHW 2018b).

Commission analysis of census figures also suggests that Indigenous Australians in remote Australia are less mobile than those in the rest of Australia (table 2.2). In *very remote* areas, an estimated 86 per cent of Indigenous people lived in the same geographic area as they did five years previously (whereas this was true of only 61 per cent of non-Indigenous people). By comparison, mobility rates were much closer for Indigenous and non-Indigenous Australians in non-remote parts of the country.

Table 2.2 Geographic mobility by remoteness^a

Proportion of individuals who moved out of a Statistical Area Level 2 (SA2) between the 2011 and 2016 census by remoteness^b

	<i>Indigenous</i>	<i>Non-Indigenous</i>
	%	%
Non-remote Australia	38.5	33.4
<i>Remote areas</i>	24.7	33.1
<i>Very remote areas</i>	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. The data are for people 5 years and older in 2016. ^b Statistical Area Level 2 (SA2) is a geographic classification defined by the ABS, intended to represent a community that interacts socially and economically and has an average population of about 10 000 people (ABS 2016b).

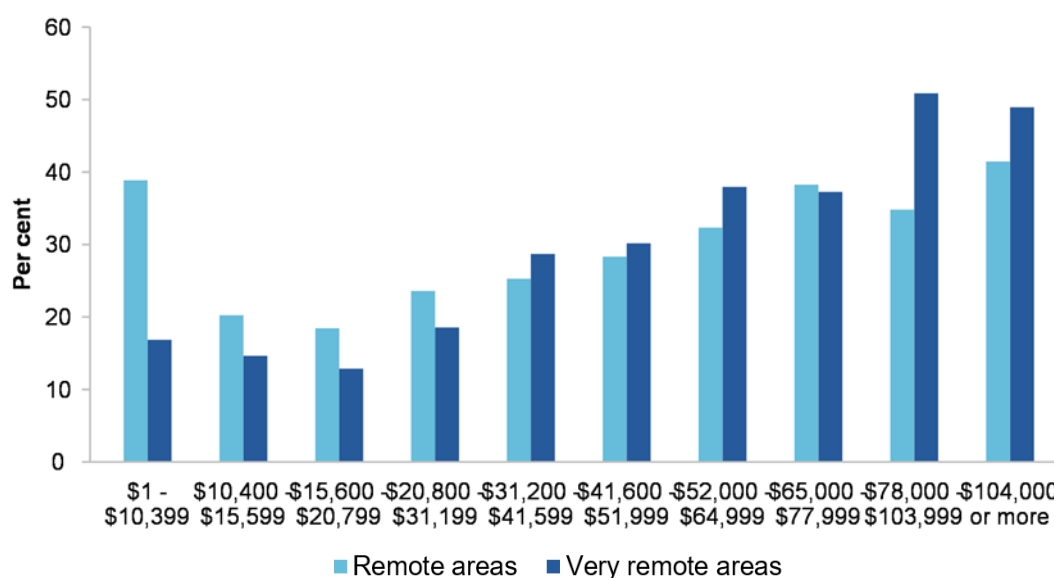
Source: Commission estimates based on ABS (*Australian Census Longitudinal Dataset, Tablebuilder, Australia, 2011–2016*, Cat. no. 2080.0).

Further, in its analysis of the 2011 census, the Centre for Aboriginal Economic Policy Research (CAEPR) found high residential turnover among both Indigenous and non-Indigenous households in remote Australia, but contrasting patterns of movement. Non-Indigenous residents typically moved between remote Australia and large urban areas, suggesting that they might be moving temporarily for work purposes. Indigenous Australians — especially those in *very remote* areas — were much less likely to move between remote Australia and large urban areas, being overwhelmingly more likely to move *within* remote Australia. The CAEPR found that the strongest predictors of remote Indigenous migrants' destinations were proximity and the presence of a large Indigenous population at the destination, indicating that movement was largely motivated by familial and cultural ties (Biddle and Markham 2013, pp. 5–13).

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 2014a). Higher incomes (or greater wealth) can also mean that relocation costs incurred when moving between labour markets are less of a barrier to mobility.

Commission analysis of movements out of SA2s between the 2011 and 2016 census suggests that residents' mobility varied both between *remote* and *very remote* areas and across incomes (figure 2.6).³ Across remote Australia, mobility rises with income — with the exception of *remote* area residents in the lowest income bracket (who make-up only 7 per cent of *remote* area income earners). The pattern of mobility increasing with income is particularly strong in *very remote* areas, where people on low incomes appeared to be especially immobile while those earning very high incomes have significantly greater rates of mobility than their *remote* area counterparts.

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



^a Geographic mobility was estimated by comparing the SA2 of an individual's residence in 2011 to the SA2 of their residence in 2016. The data are for people 15 years and older in 2011. ^b Statistical Area Level 2 (SA2) is a geographic classification defined by the ABS, intended to represent a community that interacts socially and economically and has an average population of about 10 000 people (ABS 2016b).

Source: Commission estimates based on ABS (*Australian Census Longitudinal Dataset, Tablebuilder, Australia, 2011–2016*, Cat. no. 2080.0).

³ Movements between SA2s is an imperfect proxy for mobility. SA2s typically increase in geographic size as population density decreases and, because *very remote* areas have lower population densities than *remote* areas, a *very remote* resident will generally have to travel greater distances to move SA2s. Therefore, in a literal sense, a *very remote* resident could, without leaving their SA2, be as 'geographically mobile' as a *remote* resident who leaves their SA2. However, the Commission does not consider it likely that this would significantly alter the conclusions supported by comparison of SA2 movement in *remote* and *very remote* areas, in part because SA2s are designed to capture distinct communities of people.

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* and *very remote* areas are much less likely to be in the (formal) labour force than non-Indigenous people in those areas (with participation rates of 48 per cent and 42 per cent respectively compared with 73 per cent and 80 per cent). They are also much more likely to be unemployed (with unemployment rates of 21 per cent and 29 per cent respectively compared with 4 per cent and 3 per cent) (table 2.3).

Table 2.3 Remote area labour market outcomes
By Indigenous status and remote classification

	Indigenous Non-Remote	Indigenous <i>Remote</i>	Indigenous <i>Very Remote</i>	Non-Indigenous Non-Remote	Non-Indigenous <i>Remote</i>	Non-Indigenous <i>Very Remote</i>
	%	%	%	%	%	
Labour force participation ^a	56.3	47.6	41.8	64.8	72.5	79.9
- Full-time employed	52.8	54.2	44.7	61.0	70.0	79.2
- Part-time employed	30.5	25.0	26.3	32.3	25.9	18.0
- Unemployed	16.7	20.8	29.1	6.7	4.1	2.7
Employment to population ratio ^b	46.9	37.7	29.7	60.5	69.6	77.7

^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 over the age of 15. ^b Individuals in employment as a percentage of the population over the age of 15.

Sources: Commission estimates based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073).

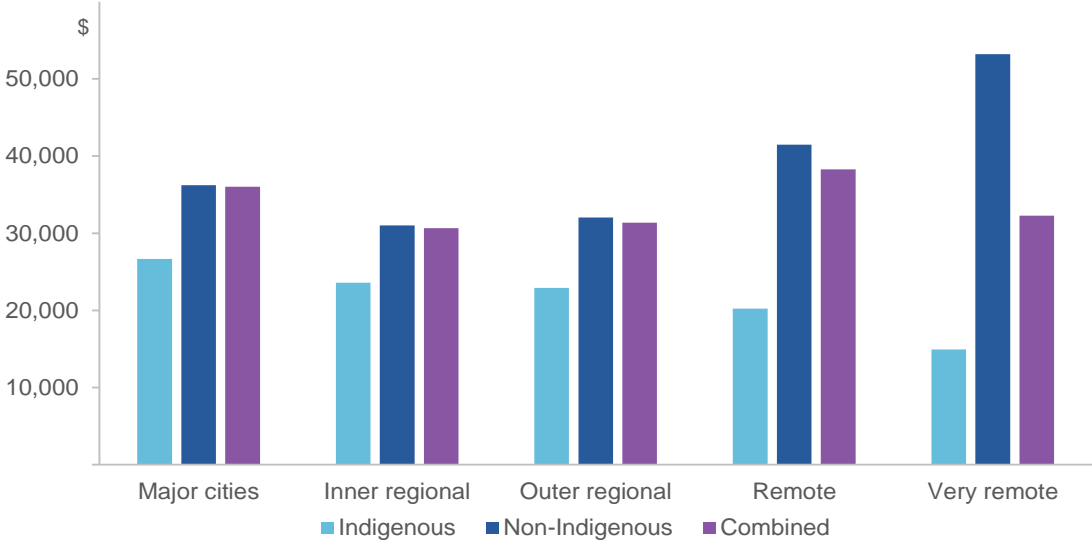
This gap in labour market outcomes is a longstanding phenomenon, but has become more pronounced since 2011 as employment rates have fallen for remote Indigenous Australians (Venn and Biddle 2016).⁴

⁴ 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. However, the decrease 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 well (AHMAC 2017).

A number of submissions⁵ noted the significant variation in incomes *within* remote Australia. In some parts of remote Australia (including some mining regions), unemployment is low, and employers provide large remuneration packages to attract workers; by contrast, other remote areas 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* and *very remote* areas compared with the rest of the country (ABS 2017b).

In aggregate, these divergent outcomes largely cancel out. Commission analysis indicates that there are only small differences in median incomes between remote Australia and the country as a whole, and there is no clear pattern with respect to remoteness (figure 2.7). However, there is substantial variation in the composition of the population (by characteristics like 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 significantly higher for non-Indigenous people in *remote* and, even more so, for *very remote* areas 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. The data are for people 15 years and older. ^b The combined column shows the median income of the entire population by remoteness category.

Source: Commission estimates based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016, Cat. no. 2073*).

⁵ These included Mareeba Shire Council, sub. 13; Katherine Trigg, sub. 17; the Central Land Council, sub. 35 and the Northern Territory government, sub. DR199.

Remote areas are socioeconomically disadvantaged

Although there are good 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 disadvantage is particularly pronounced for the Indigenous population (SCRGSP 2016), and that the increase in disadvantage associated with remoteness is greater for the Indigenous population than for the non-Indigenous population (box 2.5).

One example can be seen with school NAPLAN⁶ results, where fewer students in remote Australia 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* areas. Outcomes are significantly poorer for Indigenous students in remote Australia; 80 per cent meet minimum reading standards in *major cities*, but only 25 per cent do in *very remote* areas.

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

ABS category	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: ACARA (2017).

Other measures of disadvantage — including home ownership, health outcomes, prevalence of disability and life expectancy — often worsen with remoteness (ABS 2013c; ALRC 2013; TIA 2016). The Index of Relative Socio-Economic Disadvantage (IRSD) shows that *remote* areas have a greater proportion of highly disadvantaged people than in *major cities* (although fewer than in *outer regional* areas). Further, *very remote* areas have starkly greater levels of disadvantage, with almost half of the population sitting in the most disadvantaged decile (ABS 2017b).

However, not all forms of disadvantage worsen with remoteness. Some self-reported health outcomes for Indigenous Australians improve with remoteness: a smaller proportion of

⁶ 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.

Indigenous Australians reported their health status as being only fair or poor in *remote* and *very remote* areas (20 per cent) than in non-remote Australia (27 per cent) (ABS 2016a).

Box 2.5 **Disadvantage is associated with remoteness**

Recent studies have found an association between disadvantage and remoteness.

As discussed in chapter 6, the Commission's *Transitioning Regional Economies* study (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, with those in *very remote* areas tending to have the lowest adaptive capacity (PC 2017d, 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 Australia, adaptive capacity is also influenced by 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 2017d, 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 2017d, p. 13).

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 Australia 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. 3.12)).

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 2019e, p. 16).

Similarly, several studies have found that Australians living in rural and remote areas generally experience poorer health and welfare outcomes than people living in metropolitan areas. For example, the Commission's recent *Mental Health* draft report (PC 2019c) noted that the suicide rate in regional areas is consistently higher than in *major cities*, and that suicide rates in *very remote* regions are almost twice the national average. More broadly, the Australian Institute of Health and Welfare has found that:

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)

Primary industries remain important, but services dominate employment

Just as the demography of remote areas differs from metropolitan areas, so too does the make-up of the economy. The economies of many remote communities are still reliant on natural resources, such as arable land, minerals, 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 Australia</i>	<i>Remote Australia</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: Commission estimates based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073).

Money flowing into remote areas, usually from those three industries, generates flow-on spending for businesses that support them 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 prevalent 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 River Dam. This 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 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 limited access to transport and lower education levels, which can make it harder for residents of remote areas to seek employment elsewhere (PC 2017d). However, the same study also noted that diversification should not be pursued without considering the consequences. For example, it would not be sensible to promote new industries in the Pilbara at the expense of iron ore just to achieve greater diversification. Some remote towns exist because their natural resources confer large advantages in certain industries; efforts to diversify their economies, against economic fundamentals, would generally divert resources from more productive uses.

FINDING 2.2

Remote Australia is home to 2 per cent of the national population. In general, remote Australians experience lower unemployment, higher labour force participation, and (in many cases) higher incomes than non-remote Australians. But this hides major disparities within and between *remote* and *very remote* areas.

Indigenous Australians in remote Australia (who make up 28 per cent of its population) are less likely to be employed or participate in the labour market, and tend to earn lower incomes than both non-Indigenous Australians and non-remote Indigenous Australians. They also tend to be less mobile than non-Indigenous Australians in *remote* areas, and even more so in *very remote* areas.

Further, socioeconomic disadvantage is more prevalent in remote Australia than elsewhere — especially among the Indigenous population and in *very remote* areas.

2.3 Challenges of life in remote Australia

Residents of remote areas face a range of economic and social challenges tied to isolation. 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 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 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. Some remote residents’ concerns — such as difficulty 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 remoteness.

This section explores the issues that 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 provided numerous examples and anecdotes about the higher prices of goods and services in remote communities (box 2.6). The most common cost-of-living issues raised in submissions were the high prices of food and groceries, transport (especially flights), fuel, insurance, freight, and basic utilities (such as water and electricity).

The story is more complex for other living costs. For housing in particular, median rents and house prices are considerably lower in *remote* and *very remote* areas than in *major cities*, but there is evidence to suggest that overall housing costs (including the costs of utilities, rates and insurance) are higher in *remote* and *very remote* areas than in *major cities* and *inner* and *outer regional* areas.

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 overall 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, CoreLogic 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 interpreted carefully.

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

Box 2.6 Many facets of life can be more expensive in remote areas

Former Murchison resident Malcolm Ainsworth (sub. 10, p. 1) highlighted the 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 thin nature of many remote markets can leave customers with few alternative options, as Faith Morris (sub. DR146) noted:

We have one power provider, one gas supplier, one reliable phone provider – we have no choice than to pay what they dictate – we cannot save on those like city folk can.

The King Island Chamber of Commerce (sub. 21, p. 1) highlighted 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 (or unavailability) 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 (Northern Territory), King Island (Tasmania) and Lord Howe Island (NSW) told the Commission about the cost of sea freight, claiming that it puts about a 30 per cent mark-up on the price of any goods brought in. Residents of Lord Howe also noted that vehicle repairs were especially expensive, with anything beyond minor repairs requiring transport off the island (at a cost of \$2000 each way).

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, Western Australian regional price index data from 2019 indicate that food cost 6.8 per cent more in *remote* communities than in Perth, rising to 15.2 per cent more in the *very remote* communities surveyed. Queensland regional price index data from 2015 indicate that food cost 1.9 per cent more in Mount Isa (the one *remote* community surveyed) than in Brisbane, rising to 19.9 per cent in the *very remote* communities surveyed. Similarly, the Northern Territory Market Basket Survey found that, in 2017, a food basket based on the average diet of Indigenous Australians was 45 per cent more expensive in remote stores than in a Darwin supermarket.

These surveys carry limitations (such as a skew towards surveying larger regional centres) and should be interpreted with caution (appendix B). Anecdotal evidence suggests that some *very remote* communities, such as those in the Torres Strait Islands, face much higher costs for food and other items than those suggested by the regional price indexes:

The price of food, goods and services are subject to mark-ups of 50-70% (and in many cases up to 100->500%). To illustrate - a block of UHD milk that costs \$1.00 in Cairns costs as much as \$4.50 in our Shire (> 400%) and a luxury such as a block of chocolate costs \$2.00 in Cairns and as much as \$10.50 in Torres Shire (>500%). (Torres Shire Council, sub. DR189, pp. 1-2)

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. However, access to major supermarkets declines with remoteness, with more than four in five residents of *outer regional* areas living within a 50 km radius of a Coles or Woolworths store, falling to about half in *remote* areas and one in five for those in *very remote* areas (figure 2.8).

More generally, prices of non-perishable goods bought online tend to be identical across Australia. However, freight costs can add significantly to the final cost of delivered goods, particularly in the most remote communities. 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:

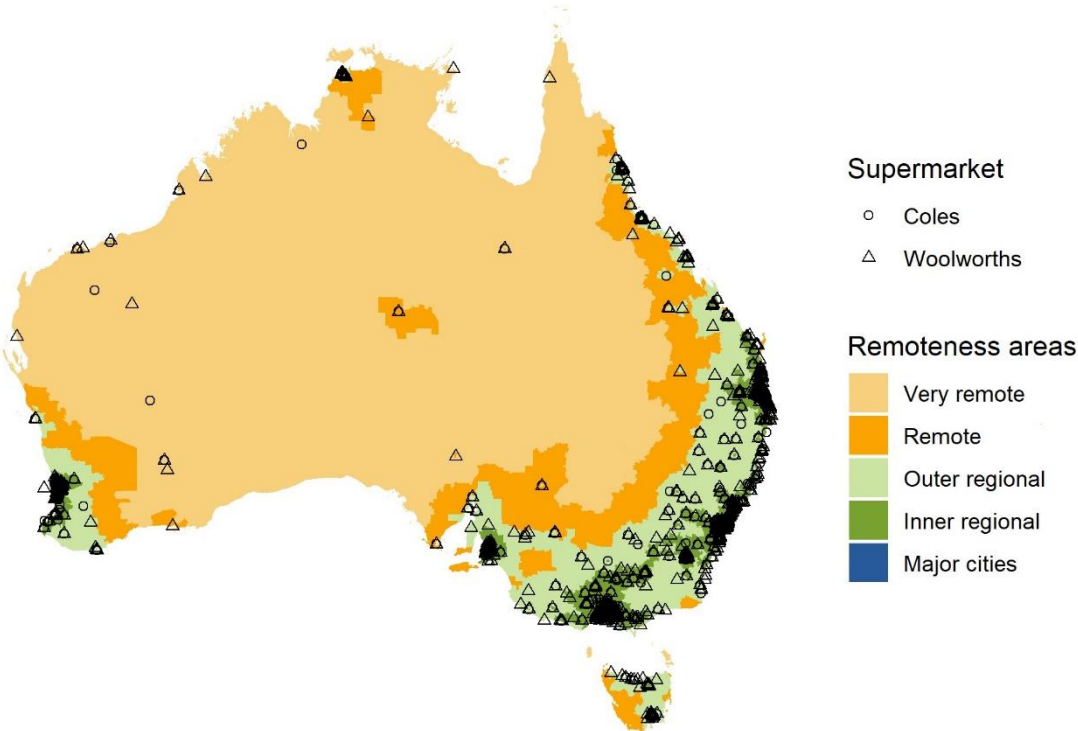
Essentially to do almost anything, that the general public take for granted, necessitates a 350 km trip by road, to the nearest towns of Carnarvon or Geraldton. Some 120 km of that road journey is unsealed, and often impassable, roadway. (Katherine Trigg, sub. 17, p. 1)

Regional price index data indicate that measured transport costs are about the same or greater in *remote* and *very remote* areas than in the capital cities, while the ACCC has found that petrol prices are generally higher in regional locations (2019, p. 24). However, neither measure includes airfares, which recent parliamentary reports suggest are high, in part

because of low economies of scale and high operational costs (LAEISC 2017, pp. 28–29; RRATRC 2019, p. 169).

Recreation and education costs are another key category of the average Australian’s expenditure; they include newspapers and magazines, audio, visual and computing equipment, sporting goods and services, pets, toys, and primary and secondary education costs. Evidence suggests that recreation and education costs increase with remoteness. For example, regional price index data indicate that, in 2019, recreation and education costs were on average 2.9 per cent higher in *inner* and *outer* regional communities surveyed in Western Australia than in Perth, rising to 6.9 per cent in *remote* communities and 24 per cent in *very remote* communities. Similarly, in Weipa, the only special area community surveyed in Queensland, recreation costs were 28.4 per cent higher than in Brisbane. (Education costs were not included in the 2015 Queensland survey.)

Figure 2.8 Supermarkets by remoteness areas^{a,b}
 Coles and Woolworths retail store locations



^a 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 Coles and Woolworths store information was extracted on 9 September 2019.

Data sources: Coles (2019); Woolworths (2019).

Determining the relative cost of housing is more complex

The overall impact of remoteness on housing costs for individual households is more complex.

- On the one hand, comprehensive, Australia-wide data from CoreLogic indicate that median house prices and rents are significantly lower in *remote* and *very remote* areas than in *major cities*. While these data control for the number of bedrooms, they do not account for differences in quality between houses in remote and non-remote Australia. Further, there is considerable variability in these costs — for example, confidential housing rent data provided by the Department of Defence indicate that rent in a subset of *remote* and *very remote* communities is higher than in *major cities*.
- Regional price index data from Queensland and Western Australia, on the other hand, indicate that overall housing costs — including costs such as utilities, rates and insurance — are higher in *remote* and *very remote* communities than in *major cities* and *inner* and *outer regional* communities. For example, in Western Australia, housing costs in *inner* and *outer regional* communities were 0.8 per cent higher than in Perth, rising to 8.2 per cent in *remote* communities and 9.5 per cent in *very remote* communities. Housing cost pressures are likely to be particularly evident in *very remote* communities lacking resident tradespeople, and also in places where materials need to be transported long distances or over water (such as King Island and Lord Howe Island).

In sum, while median rents and house prices are lower in *remote* and *very remote* areas than in *major cities*, there is some evidence that overall housing costs are higher in *remote* and *very remote* areas than in *major cities* or *inner* and *outer regional* communities.

Overall costs increase with remoteness

Overall, the data (together with anecdotal evidence) suggest that there are living cost pressures that are inherent to remoteness, with the impact most pronounced in *very remote* areas. For example, Western Australian regional price index data indicate that, in 2019, the cost of a standard basket of goods and services in *remote* communities was 6.4 per cent higher than in Perth, rising to 12.6 per cent in *very remote* communities. Similarly, Queensland regional price index data indicate that, in 2015, a standard basket of goods and services cost 2.6 per cent more in Mount Isa (the one *remote* community surveyed) than in Brisbane, and 6.1 per cent more in *very remote* communities.

The data also suggest that living costs in *inner* and *outer regional* communities are on average close to those in the *major cities*. For example, in Western Australia, a standard basket of goods and services cost on average 2.9 per cent more in *inner* and *outer regional* communities than in Perth. Similarly, in Queensland, a standard basket of goods and services cost on average 0.3 per cent less in *inner* and *outer regional* areas than in Brisbane. In the larger regional cities of Townsville and Mackay, the basket was 2.3 and 0.6 per cent less expensive than in Brisbane, respectively, while it was 3.6 per cent more expensive in the far northern city of Cairns.

Service accessibility

Impaired access to services and modern amenities was one of the major concerns put forth by residents living in remote areas (box 2.7). Although many residents 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 and 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 2.7 Difficulties in accessing services

Remote areas lack the population needed 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; Tonya Murray, sub. 50 CQUniversity Australia, sub. DR109, Jan Howard, sub. DR118 and James Wilton, sub. DR128) remarked on the relative disparity in service access between their communities and less remote areas. Katherine Trigg (sub. 17, p. 1) of Useless Loop (in *very remote* 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 are often in small classes with fewer peers. Numerous participants (including Shannon Moren, sub. 49 and ICPAA, sub. 74) cited these reasons, among others, in explaining 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, several submissions (James Potter, sub. 25 and AJ & PA McBride Ltd, sub. 61) emphasised the costs of accessing healthcare for people with complex needs. These can exceed the cost of the consultation or procedure, and include travel and accommodation expenses along with the cost of 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.

Because remote Australia is sparsely populated, it is often costly for government and businesses to directly or continuously provide a range of services, especially when those services are highly specialised.⁷ 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 Australians living in remote areas 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 Australia (AIHW 2018b). However, inconsistent data mean that it is unclear whether there are fewer general practitioners (GPs) per person.⁸ What can be said is that accessibility to health services, to the extent that it is reflected in usage, decreases significantly as remoteness increases — with *very remote* residents consuming 3.6 health services per capita annually, compared with 6.3 services in *major cities* (AIHW 2019b).

Thin markets for health services in remote Australia mean that generalised health professionals can more cost-effectively provide a broad range of health services (AIHW 2017). That said, the sheer size of remote Australia means that many residents must still travel long distances to see health care professionals face-to-face. The Commission also heard during its visits to regional and remote communities 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.

As discussed in box 2.8, the tyranny of distance is especially problematic in emergencies, when response times are crucial to outcomes. Response times in *remote* areas and especially *very remote* areas can be several times higher than in *major cities* (table 2.6).

⁷ The higher per-person cost of delivering government services in remote Australia is reflected in the distribution of grants to State and Territory governments under Australia's horizontal fiscal equalisation framework (discussed in chapter 3). States and territories with a larger proportion of residents in *remote* and *very 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 to other priorities.

⁸ The National Rural Health Alliance (2013) has raised concerns about the accuracy of medical service staff numbers, particularly in relation to discrepancies in GP numbers in remote Australia. AIHW (2016) data indicate that per-capita GP numbers are higher in remote Australia than elsewhere; whereas, ABS (2013a) and DOH (SCRGSP 2019) data indicate that there are substantially fewer GPs per person in remote Australia.

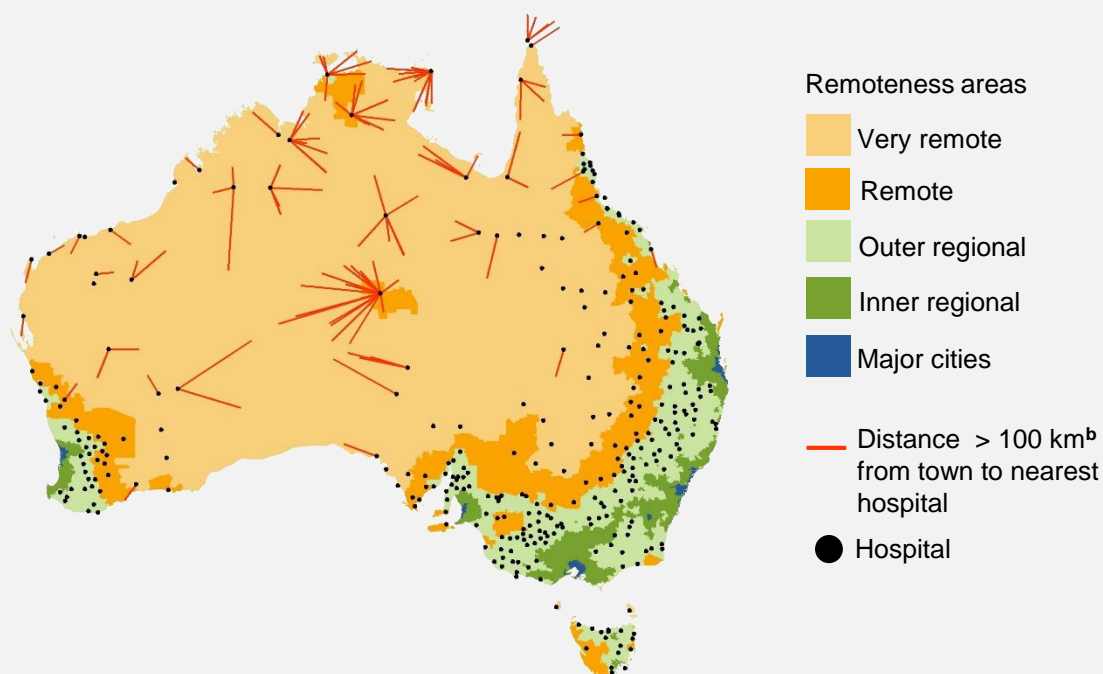
Box 2.8 Access to public hospitals in *remote* and *very remote* areas^a

The differences in disadvantage between *remote* and *very remote* areas become particularly critical when goods or services, such as emergency medical care, need to be accessed in a time-sensitive manner.

The map below shows the distribution of public hospitals across the ABS remoteness areas. It also shows the straight-line distances to towns (of over 200 people) that are more than 100 km away from those hospitals. As is evident, few people in *remote* towns need to travel more than 100 km to reach a public hospital, with many of the larger towns in *remote* areas having their own hospitals. (In fact, only 3 per cent of *remote* area residents would face this situation.) However, about 40 per cent of people living in *very remote* areas (some 78 000 people) would need to travel more than 100 km to access a public hospital.

Many residents of particularly small and isolated communities in Australia's interior must travel several hundred kilometres to access public hospitals. For example, Kintore in the Northern Territory is more than 450 km from the nearest public hospital (in Alice Springs). Over these distances, road travel can be impractical, and it is the Royal Flying Doctor Service (RFDS) that responds to medical emergencies. However, it still takes more than 80 minutes for the RFDS to reach that community.

Furthermore, hospitals in remote Australia are often unable to provide the full range of services that one would expect in a major city. In Alice Springs, the RFDS regularly operates emergency flights to Darwin and Adelaide (each over 1000 km away) when patients' needs are too specialised for the Alice Springs hospital to handle (RFDS nd).



Sources: ABS (2017b); AIHW (2018a).

^a Public hospitals are as defined by AIHW. However, the number of beds and breadth of services available at each hospital varies significantly across Australia. Indeed, many of the 'public hospitals' in remote Australia are called health clinics or multi-purpose service clinics. ^b Distances shown are straight-line distances; actual road distances will be greater.

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

<i>ABS category</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	n/a
Inner regional	16.5	14.8	13.2	20.9	31.3	14.5	n/a	n/a
Outer regional	21.0	18.7	13.4	21.6	22.9	24.4	n/a	15.2
Remote	19.6	n/a	16.9	28.0	19.7	19.7	n/a	16.7
Very remote	23.2	n/a	17.2	33.4	60.3	29.2	n/a	60.8

^a Refers to the time taken between the initial call-out and the fire services' arrival. For a given jurisdiction and remoteness category, 90 per cent of fires were responded to more quickly than this, while 10 per cent were responded to more slowly.

Source: SCRGSP (2019).

On the other hand, it does not appear that people in *remote* and *very remote* areas are particularly disadvantaged in terms of wait times for specialist medical appointments and procedures. For example, wait times for elective surgery 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 Australia, and so residents must enter the same medical service queues as urban users (SCRGSP 2018).

Consequently, for specialist care, residents feel the impact of remoteness most through travel costs and time spent travelling. In some areas, patients must wait for a travelling specialist to visit their community or one nearby. Other patients may need to move to an area that can provide their health care services consistently. Some places (including Alice Springs, Darwin and Mt Isa) have kidney dialysis communities made up of former residents of surrounding towns (Wilson 2016).

Many patients must regularly travel to major urban areas for treatment. However, as a number of participants noted (sub 9 and sub 25), travelling out of town to access medical services can often be expensive and cumbersome. Many remote patients are compelled to book private accommodation to meet appointment times, and those requiring follow-up visits or appointments with multiple specialists must travel and incur these expenses repeatedly if their appointments fail to line up.

Some remote communities have devised ways to avoid these problems. For example, they may have general nurses trained to conduct procedures with direction from a telehealth professional. 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. The Commission has previously found that telehealth is an increasingly important part of health care provision in remote Australia and, in conjunction with expanded National Broadband Network (NBN) coverage, could significantly improve the accessibility of services to remote areas (PC 2017c). 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 therefore likely to experience disadvantages in accessing health services, the extent of these disadvantages will 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 Controlled Health Services in Northern Territory communities like Katherine and Maningrida providing a range of free primary health services to the local Indigenous population.

Education

People in remote areas can also have difficulties accessing education. 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 breadth of choice between public, private, denominational or specialised schools is generally not available. Families have few alternatives if they are concerned 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 instead be hundreds of kilometres (Lamb et al. 2015).

Accessing education becomes more challenging as children progress through secondary education, especially in the latter years of high school when there is more need for teachers with knowledge in specialised subjects. Further, attracting and retaining qualified staff is a challenge in itself (box 2.9). Education provision is especially challenging in *very remote* areas. The sheer size of these areas (73 per cent of the country), together with the difficulty of attracting and retaining suitable staff, mean that they have the highest ratio of students to schools (table 2.7). Specifically, *very remote* areas have almost twice as many potential students per high school as *remote* areas.⁹

Table 2.7 Ratio of pre-high-school students to high schools

Number of 10-year-olds per high school, by remoteness

	<i>Major cities</i>	<i>Inner regional</i>	<i>Outer regional</i>	<i>Remote</i>	<i>Very remote</i>
Students to schools ratio	193	147	134	123	211

Sources: Commission estimates based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073); ACARA (2018).

⁹ 10-year-olds (rather than high-school-aged students) are used as a metric because, as figure 2.5 indicated, many non-Indigenous Australians — especially those in *very remote* areas — relocate after finishing primary school in order to access high school education.

Box 2.9 **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 students. 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 schooling, 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 their children 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 ultimately may 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 2019e, 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 Spanish and Design and Technology teachers multiple times. Having more teachers at Andamooka would enable the school to separately teach more year groups, while in Roxby Downs it would allow for 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.

These factors mean that, for many families in *very remote* areas, it is virtually impossible to enrol their children in local high schools, let alone obtain instruction for them in specialised subjects. As a result, students are required to attend boarding schools or their families are obliged to relocate. For university education, students almost always relocate (PC 2019e).

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 for delivering education remotely have improved substantially. Modern technologies, such as videoconferencing and downloadable resources, have been integrated into the schooling system to make education more accessible.

Likewise, tertiary education providers have been introducing new forms of education delivery that 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, and social (or religious) reasons.

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 populations rise and fall. Losing these services affects the social lives and community of remote areas more broadly, as they facilitate social interaction amongst residents (PC 2017d).

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, some of which are increasingly seen to be almost essential. For example, the Commission estimated in 2017 that up to 0.8 per cent of the population, across 90 000 properties (primarily in *remote* and *very remote* areas), lacked adequate mobile coverage.

Likewise, some *remote* and *very remote* areas are unable to access cable or fixed wireless versions of the National Broadband Network (NBN). In these cases, satellite NBN aims to provide adequate calling and data services. However, in comparison to services available in urban areas, these satellite connections have comparatively higher latency, are more expensive and less reliable (PC 2017c).

Many regional and remote residents also voiced concerns about the prices and availability of air travel. For many remote residents, air travel is the most practical way to access a number of more specialised services in a timely manner.

However, they may not have ready access to an airport with regular passenger air services. Using data from the ABS (2017b) and BITRE (2017), the Commission estimates that 35 per cent of people in *remote* areas, and 50 per cent of people in *very remote* areas, must travel more than 100 km to access such an airport, and 8 per cent and 16 per cent, respectively, must travel in excess of 250 km to do so. Almost every town (of more than 200 people) that is more than 250 km from an airport with regular passenger services is located in *very remote* areas (figure 2.9). As such, residents of *remote* and particularly *very remote* areas have far less ready access to such airports than city dwellers and regional people.¹⁰

Moreover, these airports are generally smaller than those in major cities, with far fewer regular passenger routes and flights available. Remote residents will often find that the cost of domestic air travel exceeds that of international flights, but the only alternative might be several hours (or even days) of travel by car. In some circumstances, like when a loved one is ill, there may be virtually no other option than to fly.

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.

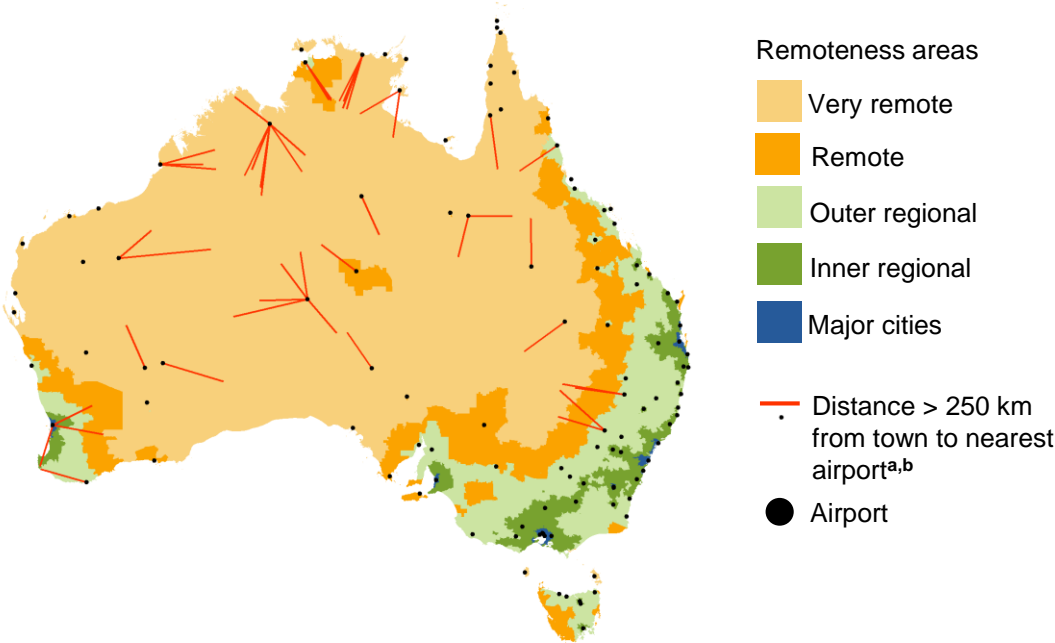
In those locations and others without access to air travel, residents must look for alternatives. These include private transport or bus services — often over very long distances, or on roads of poor quality (some of which become impassable for lengthy periods due to flooding). The Commission heard when 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, mainly for residents to see medical specialists.

¹⁰ In regional areas, less than 1 per cent of people live more than 250 km from an airport with regular passenger services; around 15 per cent live more than 100 km away.

Challenges with personal transport also extend 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, there may only be one freight company that will service a given remote area, leaving residents exposed to monopoly pricing.

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

Figure 2.9 **Distribution of airports with regular passenger services**
2016–2017



^a Towns included are those with a population of 200 people or more. ^b Distances shown are as the crow flies; actual road distances are greater.

Sources: ABS (2017b); Australian towns list (2020); PC (2019a).

The difficulties of doing business

The Commission's consultations revealed a range of difficulties faced by remote businesses (box 2.10).

Costs of doing business

Just 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 costs) are much the same as they are for households.

Labour shortages

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

Businesses 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, three 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* or *very remote* residents of all states and territories, experiences population turnover of 17 per cent each year (Northern Territory Government 2019d).
- A number of participants in mining regions stated that poor staff retention was a by-product of being unable to compete with mining firms on wages. The *Cost of Doing Business in the Pilbara* study (RDA 2018) noted that:

NGOs are quite active with more families moving into Newman. However, it is difficult to compete with the mines for labour. For example, four staff have left one NGO in the last few months to work for a major mining company.
- 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).

Box 2.10 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 Goldfields Voluntary Organisation of Councils (sub. DR113, p. 6) highlighted the costs of bringing someone out to a remote area to work.

- Expensive relocation cost for staff to remote locations;
- Additional leave entitlements to get out of a remote location;
- Travel costs to get out as there are no public travel services;
- Location cost of living allowance as the Remote Zone Allowance does not cover the costs

The Central Land Council (sub. 35, p. 6) argued that higher labour costs extend beyond recruitment, with higher salaries required 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.

Employers we met with in Wilcannia told us that there was a shortage of 'reliable workers' who consistently showed up on-time to work. They said they typically paid workers a wage of 40 per cent above the award rate.

A number of employers (sub. 63, sub. DR162, sub. DR172) argued that the unique characteristics of remote areas also introduced other labour costs. For example, the NFF (sub. DR191, p. 3) noted that many farmers in remote areas need to provide accommodation to attract workers.

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 2500 km (Round trip) and costs associated with being away from home.

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. The National Farmers' Federation (sub. 85, p. 6) submitted that:

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.

In many service industries, dwindling and dispersed remote populations have shrunk the market base available to businesses. 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 remote tropical 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). 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 2019). The cost of ensuring that infrastructure withstands these environmental pressures is also substantial: flood-proofing the flood-prone Bruce Highway that connects Cairns to Brisbane was estimated to cost taxpayers \$6.7 billion (Hemsley 2014).¹¹

Heat stress is a major issue in inland Australia. Nationally, it kills more people than any other weather event, and heat stress deaths 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 to 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 through jobs in traditionally ‘outdoor’ industries such as mining and agriculture.

¹¹ In its 2014 inquiry into *Natural Disaster Funding*, the Commission noted that mitigation measures were underfunded, finding that some of the funds from post-disaster recovery would be better spent on disaster prevention and mitigation (PC 2014b).

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- In agriculture, livestock and water supply are increasingly being monitored remotely, and mustering 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 — including air conditioning, insulation and refrigeration — are now more widely available. These goods are also becoming cheaper. 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. For example, people living in locations with hot and/or humid weather incur more costs by running air conditioners for larger parts of the year. In the hot and humid climate zone in Australia's north, people consume, on average, 24 per cent more electricity than the national average (ABS 2013b).

Residents also bear the costs of ensuring that goods and services are suitable for remote areas. Since 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 (and, in some cases, the unavailability of insurance) reflect the risks to property in many remote areas (ACCC 2018).

However, drought, floods, storms and other forms of harsh or unpleasant climate or weather are not exclusive to remote Australia. For example:

- 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 2013b).
- The risk of bushfires is also greater in regional Australia, particularly in the 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). Most notably, the extensive bushfires that took hold in Australia in the summer of 2019-20 were mainly located in regional areas in New South Wales and Victoria.

FINDING 2.3

Some inherent features of remote Australia make it difficult for residents to attain a comparable standard of living to city dwellers and people in regional areas.

- The cost of living generally increases with remoteness.
- People in remote Australia typically have less ready access to services.
- Many aspects of running a business, including attracting and retaining suitably-qualified staff, are more difficult in remote Australia.

These difficulties are most pronounced in *very remote* areas.

Many remote areas also face a harsh climate and the risk of natural disasters, although these phenomena are not unique to remote Australia.

2.4 Why do people live in remote Australia?

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 2.11.

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 people 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) no universal truths explain why Australians live where they do, this section covers some of the more common reasons.

The pace and space of remote Australia

Although not without its own forms of colour and movement, country 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 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).

Box 2.11 **There are many reasons why people live in remote Australia**

On the Commission's regional visits, people highlighted a number of reasons 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.

A number of submissions (sub. DR137, sub. DR189) explained that there are unique cultural and familial attachments to country for Indigenous Australians living in remote areas. 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'.

Pilbara resident Joanne Cork (sub. DR139) noted that certain jobs simply do not exist outside of remote areas.

It would be lovely if we could all live in Perth, but the reality is that this cannot happen if you want to live like a family together and still earn an income. Not a lot of iron ore mines in Perth last time I looked, so they do not need Fixed Plant Fitters in Perth.

Likewise, 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.

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 that 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 (Smart, Muir and Daraganova 2018). It also found that children of serving ADF members moved schools more frequently than civilian children.

Others stated that they might like to move, but cited financial constraints as a reason for staying. Principal of Woomera Area School Anthony Holden (sub. DR100, p. 2) said that an unsuccessful business venture left him little hope of relocating to a city area in retirement.

All benefits are gone for me and I am near the end of my teaching life. What next for me in the country? What hope of relocating to a city dwelling when I finish teaching? I don't own property anywhere and having already retired and lost my savings due to unseasonal weather (and no compensation) I now have what little super I have stashed away in the past ten years to live off.

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) are examples. Parts of northern Australia are tropical and lush, and Karumba in the Shire of Carpentaria attracts 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.¹²

Perhaps the biggest attractions for those without a history of living in remote areas are the high wage and non-wage benefits available for many occupations. While these will vary from job to job and from place to place, relocating to a remote area can be an opportunity to earn remuneration well above the going rates elsewhere. For example:

- drawing on a 2015 analysis, the Central Land Council said that a salary premium of about 25 per cent is necessary to attract and retain staff to remote Central Australia (box 2.10)
- several public sector employers provide remote area allowances that can reach tens of thousands of dollars, and the remote allowances provided by some mining companies can reach up to 35 per cent of base salary. These are provided in addition to any 'in-kind' remuneration premiums (box 2.12)
- analysis of tax return data shows a wage and salary differential in both low- and high-skill occupations that favours working in remote zones, although it is not possible to precisely identify what component of this constitutes a remote area wage premium (box 2.13).

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

¹² As mentioned in chapter 3, a number of visas are specifically designed to attract people to work in regional areas. However as discussed more broadly in chapter 5, research has found that the long-term retention of foreign-born migrants is extremely low (Raymer and Baffour 2018).

Box 2.12 High remuneration in remote Australia

Public sector agencies provide a range of remote allowances and other benefits to attract and retain employees in remote Australia.

- In New South Wales, teachers who relocate to a school in Bourke or Tibooburra (classified as *remote* and *very remote*, respectively, by the ABS) 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 (NSW DET 2017).
- Employees in the Western Australian public service are paid annual district allowances of \$7436 and \$9299 in the Kimberley and Pilbara regions, respectively (WA DMIRS 2019).
- South Australian public sector employees are eligible for a number of payments when working in remote areas. These include a locality allowance of up to \$9493, a spousal allowance of up to \$1104, a dependant allowance of up to \$644 for a person's first child, and a holiday travel allowance based on the cost of road travel to Adelaide (SA Gov 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 2019a, 2019c). Defence personnel in remote areas also receive additional leave to enable access to services 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 less 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 National Farmers' Federation (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.

Box 2.13 Data limitations prevent precise quantification of remote wage premiums

Commission analysis of de-identified ATO tax return data for 2016-17 shows a wage and salary differential that favours workers in remote zones in a range of low- and high-skill occupations (chapter 4). However, as the Commission noted in the draft report, labour force characteristics would affect these differentials, making it hard to isolate an implicit 'remoteness premium' in the data.

Following the draft report, some participants submitted that remoteness premiums do not apply to all jobs or occupations in remote areas, suggesting that they might be mainly a mining industry phenomenon (sub. DR124). Others pointed to reasons why the results from the ATO data reported would need to be adjusted to obtain a 'truer' estimate of any remoteness premium (sub. DR124, sub. DR195).

The Commission's conclusions on remuneration premiums are drawn mainly from the direct evidence that employers pay such premiums (such as that listed in boxes 2.10 and 2.12). That evidence indicates that remoteness premiums are more widespread than just in the mining sector, although the Commission does not doubt that premiums will vary from place to place, job to job and industry to industry.

Since the draft report, the Commission has reviewed the ATO data and ABS census data to check whether it is possible to be more definitive about the extent and distribution of financial remuneration premiums in remote Australia.

While the ATO's database of tax returns provides a highly accurate picture of wages and salaries, it lacks sufficient information about taxpayers' characteristics for remoteness premiums to be identified with any confidence. In particular, the dataset does not have information on taxpayers' labour force status (that is, full-time or part-time), industry of employment, hours worked, educational attainment and ability, or Indigenous status.

In general, the Commission considers that the ABS census dataset is likely to give more reliable estimates because it contains a broader set of potentially influential explanatory variables. Several of the variables mentioned above, which are not covered by the ATO dataset, can be controlled for in the ABS data. A simple hedonic regression analysis using the census data indicated that workers in remote Australia enjoy income premiums of around 5 per cent on average compared to workers with similar characteristics in cities, and of around 10 per cent relative to workers with similar characteristics in regional areas.

However, the Commission puts only limited store in these results. One issue is that the census reports people's total incomes (which include their investments and other forms of non-labour income), so the above results are not estimates of remote wage premiums. Further analysis from the ATO dataset shows that, on average, the share of taxpayers' total income that comes from non-labour sources declines with remoteness. For example, in *major cities*, this non-labour component contributes 21 per cent of income, falling to 17 per cent in *remote* areas and 15 per cent in *very remote* areas. This implies that the above results understate the extent of remote wage premiums.

Further, while the census database includes variables like age and education that help to control for differences in workers' ability, other variables reflective of ability, such as skill specialisations within professions, are unavailable. Some other variables not captured in the census dataset, but which the labour market literature suggests could impact the results (whether up or down), include workers' experience, health, whether they work in the market or non-market sectors, and the size of their employers.

Community ties to place

A sentiment expressed on the Commission's visits was that, because remote settlements are small, their residents often have a strong sense of community. Census data similarly indicate that rates of volunteering are significantly higher among residents living in *remote* and *very remote* areas, who are 42 per cent more likely to volunteer than *major city* residents; 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 2017d, 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 2.11). Faith Morris (sub. DR146) added that there are in fact several factors that strongly tie people to remote areas:

... they may have been born in a remote area, their parents may have brought them to a remote area as children and they have grown up and made their life in the same area; they may have been transferred there for work; they may be legally required to live remotely for visa conditions; they may live remotely for health reasons. And let's not even touch on Indigenous Australians and land rights!

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, as noted above, around 17 per cent of the Northern Territory population leaves each year. Population turnover may undermine the social capital of residents within a community. A recent article (ABC 2018) looked into people's motivations for moving 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.

Another reason expressed by participants in this study was a feeling of being 'stuck' in remote areas.

For some people, the reasons were financial. Land and housing markets in remote areas can be small and lack liquidity. Without the ability to sell their property, even land-owning residents might be unable to move to new areas with better opportunities or amenities (box 2.11).

For others, opportunities may be limited by socioeconomic factors. Remote Australia encompasses some of the most disadvantaged regions in the country (box 2.5). This disadvantage can serve as a barrier to pursuing education, health and work opportunities outside of remote areas. The Commission's study into *Geographic Labour Mobility*

observed that relocating can be particularly risky for disadvantaged individuals: pursuing low-skill, casual jobs has been identified as a common path to homelessness (PC 2014a, p. 166). Similarly, a disproportionately high percentage of the remote population (particularly much of the Indigenous population) are in social housing arrangements (AIHW 2019a). Tenants wishing to relocate to less remote areas face the additional challenge of losing their accommodation and entering the queue in another area (QPC 2017).

Indigenous-specific barriers to mobility

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 (Australian Government nd). Indigenous Australians' lifestyles also vary — from living and working in export-orientated mining towns such as Port Hedland and Tom Price, to life on country or on outstations in Arnhem Land.

As discussed in section 2.2, many Indigenous Australians in remote Australia are less mobile and more tied to place than their urban counterparts. The Torres Shire Council notes (sub. DR189) that living on ancestral lands is not viewed through the prism of choice but as an integral part of the Indigenous way of life:

The peoples of the Torres Strait ... live in the Torres Strait, not because of some sort of mass migratory preference, but because we belong here and have done as First Australian well before Europe even existed.

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 communities. On average, more Indigenous Australians in *remote* and *very remote* areas hold close ties to culture than non-remote residents.

- In 2014-15, 82 per cent of Indigenous Australians in *remote* and *very remote* areas participated in cultural activities such as ceremonies, compared with 57 per cent of Indigenous Australians in non-remote Australia.
- More than half reported speaking an Australian Indigenous language, compared with 8 per cent of those in non-remote Australia.
- Indigenous Australians living in *remote* and *very remote* areas are also more than twice as likely to earn income from cultural activities than those living in non-remote Australia (ABS 2016a).

This attachment to country and culture means that, even with economic ebbs and flows and the difficulties of life in remote areas, there is a strong anchor for many Indigenous Australians to live in the same place as their ancestors. Further, an increasing number of

Indigenous people hold land rights, including native title rights, over their homelands (Altman and Markham 2015).

Section 2.2 outlines that Indigenous Australians in remote Australia are less likely to be employed than non-Indigenous Australians, and that they tend to experience poorer socioeconomic outcomes. There are many reasons for this, but community expectations, at least in part, can discourage engagement with wider Australian society, limit both mobility and economic participation, and further entrench Indigenous Australians in particular places.

Attitudes in some communities are deeply distrustful towards non-Indigenous institutions, and towards Indigenous community members who engage with such institutions. An interview study (Waterworth et al. 2015) investigated the importance of social norms in evaluating government health interventions in remote Indigenous communities. Some participants in that study viewed engaging with Indigenous culture and engaging with wider Australian society as a binary decision; those who chose the latter would lose their indigeneity in the eyes of the community. One example that an Indigenous participant provided:

If an Aboriginal person is doing really well, and they've got their own home and a car and a settled life, then they say [Indigenous people] you become less Aboriginal. (Waterworth et al. 2015, p. 8)

Those who engage with or participate in such activities can find themselves at odds with their community. Where these attitudes are pervasive, they create a heavy disincentive to break from community expectations, curbing engagement with the wider Australian community. This can stifle the economic capability of some Indigenous individuals and communities in remote Australia, and restrict options for those who might wish to pursue opportunities elsewhere.

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. For some residents of remote areas, however, mobility may be constrained by socioeconomic and other factors.

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 change means that 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 uniform.

Disadvantages associated with remoteness tend to be more pronounced in *very remote* areas than *remote* areas. Some challenges are so unique to specific locations that they are not amenable to top-down policy. And, often, remote Australia’s issues are different altogether from those faced by wider ‘regional Australia’.

That being said, most people who reside in remote Australia are better off (at least in material terms) than they were in times past. However, 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* (PC 2017d), 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 geographically 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 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.
- Governments also provide assistance to industries with a prominent presence in regional and remote Australia. For example:
 - in 2017-18, the Australian Government provided subsidies and tax concessions of around \$1.9 billion to the primary production industry and \$460 million to the mining industry
 - the Victorian Government provides an exemption from land tax for land used primarily for primary production.
- In this broader context, the remote area tax concessions and payments are a very small part of the measures that assist individuals, businesses and communities in, and facilitate the 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 by outlining a range of government measures designed to assist individuals, businesses and communities in regional and remote Australia. It 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)
- assist regional and remote communities (section 3.2)
- assist Indigenous Australians in remote communities (section 3.3)
- assist industries operating in regional and remote Australia (section 3.4).

Categorising measures in this way aids in identifying and delineating policy objectives relating to regional and remote Australia.¹³

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 economic 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. Chapter 5 discusses other measures governments could consider to support the wellbeing of people in regional and remote areas.

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 2017).

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

¹³ Some measures seek to achieve more than one objective, so while a specific measure may illustrate how governments pursue a given objective, it could also serve other functions.

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

Other stakeholders are more sceptical. The Grattan Institute, for instance, has suggested 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.

- 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 2019).
- 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 2019).
- The Australian Government developed the *Our North, Our Future: White Paper on Developing Northern Australia*, which 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 been 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 (DRD (WA) 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)
- 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 11 December 2019, it had approved a total of \$1621 million in loans and conditionally approved a further \$310 million (NAIF 2019).

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 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).

Similarly, the Rockhampton Regional Council runs the Rockhampton Housing Construction Grant program, which offers up to 200 grants of \$5000 to local residents who build new houses in the Rockhampton Local Government Area between 1 August 2019 and 31 March 2021 (Rockhampton Regional Council 2019).

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 (PSC (WA) 2017, p. 9). State and Territory government employees in remote locations are often paid ‘district allowances’. In Western Australia in 2019, for example, government officers in remote areas were paid annual district allowances of \$7436 and \$9299 in the Kimberley and Pilbara regions, respectively (WA 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.

- Skilled regional provisional visas allow applicants who commit to live and work in ‘regional Australia’ (which, for the purpose of the regional visas, covers all of Australia except for Sydney, Melbourne and Brisbane) to access priority processing and a wider range of jobs than those applying to migrate to Sydney, Melbourne and Brisbane. Successful applicants become eligible to apply for permanent residency in Australia if they can demonstrate that they have lived and worked in regional Australia for three years (Coleman 2019; DHA 2019c).
- Designated Area Migration Agreements allow employers in regions covered by the agreements to sponsor skilled workers under the Temporary Skill Shortage and Employer Nomination Scheme visa programs for occupations that 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, the Goldfields in Western Australia, Orana in New South Wales and Far North Queensland

(DHA 2019a). 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, with the aim of helping employers meet seasonal demand when there is not enough local labour (DESSFB 2019).
- 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 2019d).
- 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 2018.¹⁴

The case for tax concessions for businesses in remote areas — often advocated to support regional economic development and employment — is examined in chapter 5. Chapter 7 discusses regional economic development and service delivery in examining the objectives, operation and effects of the fringe benefits tax remote area concessions.

3.2 Assisting regional and remote communities

Regional and remote communities face some challenges because of their distance from major urban centres (chapter 2). These challenges tend to be more pronounced in *very remote* areas and include cost-of-living pressures, poorer access to services and isolation.

Australian, State and Territory governments have implemented a range of measures to support the wellbeing of residents wherever they reside. 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, education and public safety
- funding communications and transport infrastructure.

¹⁴ 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).

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). Some payments take into account the higher costs of service delivery in remote areas (box 3.3).

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).

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- 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 3.3 Hospital and school funding accounts for remoteness

School funding includes remoteness loadings

School funding is based on the School Resource Standard (SRS), which sets out the per student funding a school needs to meet the educational needs of its students. It is made up of a base amount for every primary and secondary student, along with six loadings which provide extra funding for disadvantaged students and schools.

One of these loadings provides extra funding to schools in regional and remote locations, in recognition that it generally costs more to educate students in these areas than in cities.

The Australian Government has committed to funding:

- at least 20 per cent of the total SRS for government schools by 2023
- at least 80 per cent of the total SRS for non-government schools by 2023.

Public hospital funding takes remoteness into account

The current national agreement for the funding of hospital services follows an ‘activity based funding’ model, whereby hospitals are paid for the number and mix of patients they treat. If a hospital treats more patients, it receives more funding. The funding model also takes account of the fact that some treatments are more costly than others.

The Independent Hospital Pricing Authority determines the National Efficient Price for each hospital activity. It then adjusts the National Efficient Price to reflect certain differences in hospitals’ costs in delivering health care services. These include differences in hospital remoteness, hospital type and size, and characteristics of the patient population treated (such as Indigenous status).

Sources: COAG (2011); Department of Education (2019b).

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 capacities to raise their own revenues (Treasury 2019a, p. 81).

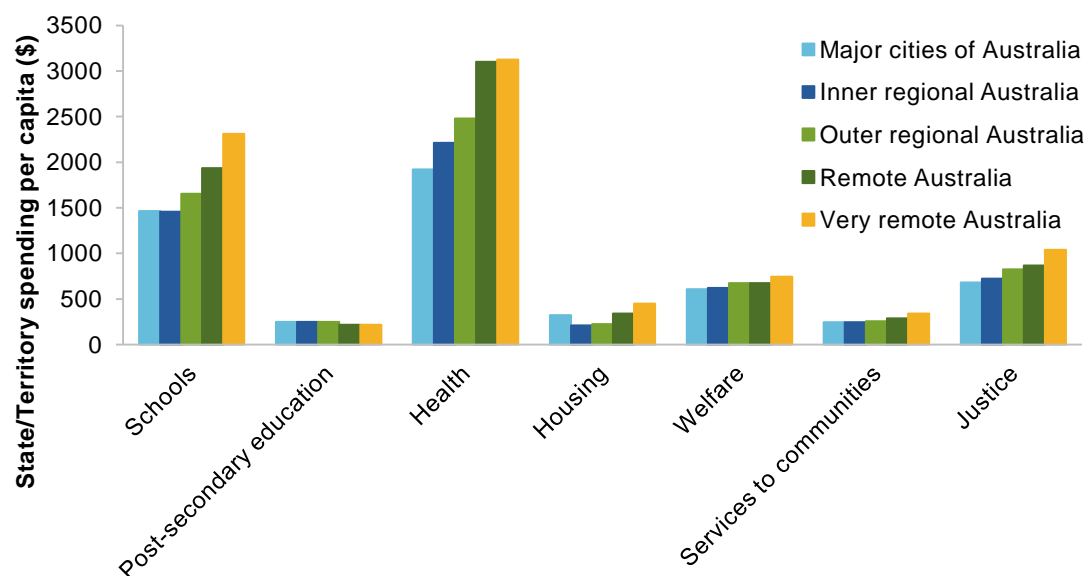
The distribution of GST revenue takes account of higher per capita expenditure on government service delivery in remote areas

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 3.4).

Box 3.4 **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 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. (Henry 2009b, p. 694)

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 3.5 and 3.6).

Box 3.5 Improving access to health services

Incentives for doctors and general practices

The Australian Government's Workforce Incentive Program (WIP) provides financial incentives to encourage doctors to practise in regional and remote Australia. It also provides financial incentives to help general practices engage nurses, Aboriginal and Torres Strait Islander Health Practitioners and allied health professionals.

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 (2019); RFDS (2018).

Box 3.6 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 WA government officers.)

From the 2019 school year onward, the Australian Government will 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 *very remote* school or preschool. The Australian Government also waives the indexation of outstanding Higher Education Loan Program debts for individuals while they teach in a *very remote* location, regardless of the length of their service.

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 access 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. Estimated expenditure for 2019-20 is \$80.1 million.

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

- 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).

(continued next page)

Box 3.6 (continued)

Additional funding for regional and remote higher education providers

The Australian Government subsidises the cost of teaching higher education students through the Commonwealth Grant Scheme (CGS). CGS funding is allocated to higher education providers on the basis of the number of full-time equivalent domestic students they have enrolled in Commonwealth Supported Places.

The CGS has a regional loading of between 5 per cent and 20 per cent of total funding to assist higher education providers with the cost of running campuses in regional and remote locations. The loading is 5 per cent for *inner regional* Australia, 10 per cent for *outer regional* Australia (excluding Darwin), 15 per cent for Darwin and 20 per cent for *remote* and *very remote* Australia.

Additional incentives to employ apprentices in rural or regional areas

From 1 July 2020, the Australian Government's Incentives for Australian Apprenticeships program will provide eligible employers of apprentices undertaking a Certificate III qualification or higher with a \$1500 commencement incentive, along with a further \$2500 when the apprentice completes their apprenticeship. If the apprentice is working in a rural or regional area, a further \$1500 is payable over the life of an apprenticeship: \$750 on commencement and \$750 on completion.

Sources: Australian Government (2019); Commonwealth Grant Scheme Guidelines 2012; Department of Education (2018, 2019a); DOE (WA) (nd); McCormack and McKenzie (2019); PC (2017c).

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.

- The Australian Government's Regional Aviation Access Programme provides 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 regulate certain air routes by granting monopoly rights to airlines to operate them (RRATRC 2019, pp. 133–134). This limits competition with the intention of making low volume routes commercially viable. In Western Australia and Queensland, the airlines also agree to maximum airfares that they may charge on these regulated routes (RRATRC 2019, pp. 135, 137). In Queensland, there are seven such regulated air routes servicing 27 communities, some by 'mail runs' (RRATRC 2019, p. 136).

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- 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.

Australia Post balances its commercial activities with a legislative requirement to provide an ‘accessible and reliable letters service, at a uniform price, for all Australians, wherever they live’ (Australia Post 2019, p. 2). Australia Post estimated the cost of delivering its community service obligations as \$392.2 million in 2018-19, including \$187.4 million in rural and remote locations (Australia Post 2019, p. 138).

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 2017c, 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, p. 7).

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 Measures affecting remote Indigenous communities

Australian, State and Territory governments are involved in the development and administration of 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 Investment Package 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 2019c). The package 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 2017-18, 892 new contracts were delivered by Indigenous businesses in remote areas at a value of \$110.2 million (National Indigenous Australians Agency 2019). 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).

3.4 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 2019f).

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 2019f).

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).

3.5 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 that are reviewed in this study.

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 assist 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. Some proponents of the ZTO also view it as a means of attracting and retaining 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 dependants.
- The ZTO is a small part of the tax and transfer system. Just 3 per cent of taxpayers — some 480 000 — claim it.
 - The average claim is \$319 a year, but nearly half are less than \$100 each.
 - 95 per cent of claimants reside in Queensland, Western Australia or the Northern Territory, and nearly half live in the four largest cities eligible for the ZTO (Townsville, Cairns, Darwin and Mackay).
 - 60 per cent of ZTO claimants earn incomes above the Australian median.
- The ZTO is outdated. It is poorly-targeted toward assisting residents of remote areas, and is generally ineffective at attracting and retaining populations.
 - The zone boundaries do not align with contemporary measures of remoteness. Residents of regional cities who 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) do not claim the ZTO.
 - The value of the ZTO has eroded over 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 the eligible areas (or at least not to leave them). However, there is no evidence to suggest that the ZTO currently affects where people decide 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) is available 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 rebate¹⁵ 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.¹⁶ 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 Australia.

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).¹⁷ 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 offset rates, differing by zone. The highest rates are available for residents of ‘special areas’, covering particularly remote parts of Zones A and B and some remote islands. Taxpayers who maintain certain dependants¹⁸ can claim an additional amount (as determined by the dependant loading) on top of the ZTO. The annual offsets and dependant loadings¹⁹ are as follows.

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

¹⁵ 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.

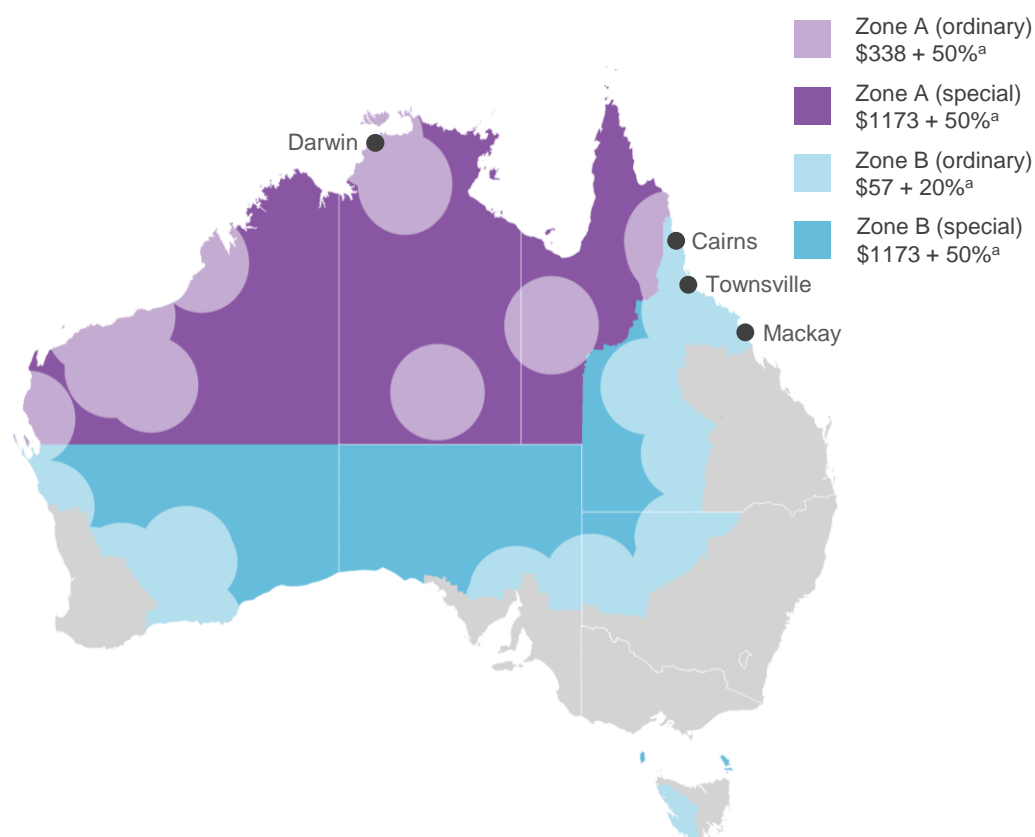
¹⁶ *Income Tax Assessment Act 1936* (Cth), s. 79A(1).

¹⁷ These are described in Schedule 2 of the *Income Tax Assessment Act 1936* (Cth).

¹⁸ A child under the age of 21, a student under the age of 25, an invalid, or an invalid carer.

¹⁹ ‘Dependant loading’ is used in this report to refer to the share of applicable dependant rebates (or, originally, deductions) that can be added to a ZTO claim. The ATO website refers to the additional ZTO that can be claimed by taxpayers for dependants as the ‘base amount’.

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 — or less than 2 per cent — of the 480 000 ZTO claimants took advantage of this option in 2016-17 (ATO, pers. comm., 29 July 2019).²⁰ The ZTO is a non-refundable offset; taxpayers are not 'reimbursed' if the offset reduces their income tax liability to below zero.

²⁰ All ZTO data published by the ATO (and reported in this chapter) include data on the overseas forces tax offset (OFTO), which is available to certain workers on overseas defence postings. Fewer than 50 taxpayers currently receive the OFTO (Department of Defence, sub. DR196), which is available at the ordinary Zone A rate. The OFTO is discussed further in chapter 5.

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 1945.²¹ The legislation stated that the concession was provided:

... 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 associated explanatory memorandum provided further insight into *why* such assistance was thought to be warranted.

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 concession was conceived in 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.²²

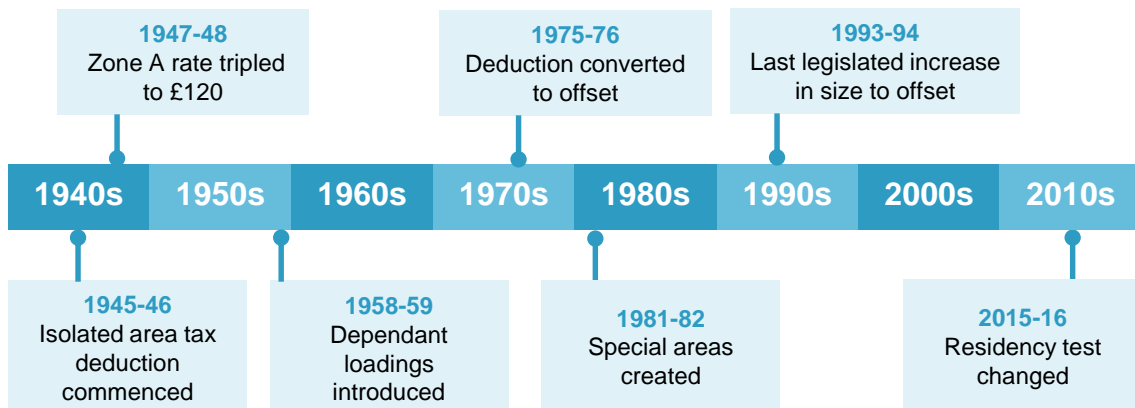
The deduction was designed to reduce the burden of those high marginal tax rates on employers seeking to attract employees to isolated areas with higher wages. As the explanatory memorandum makes clear, the concession was also considered to have other merits — including to provide a form of compensation for the disadvantages of life in remote Australia, and to encourage settlement in those areas (Chifley 1945a).

²¹ 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).

²² The highest marginal income tax rate was almost 76 per cent in 1945-46, although it was just 28 per cent for a worker earning the average weekly income for the entire year.

Although the broad strokes of the policy have been maintained, the Australian Government has amended the concession over time. These changes are outlined in figure 4.2 and described below.

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 £40²³ 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.

Two years later, the Zone A deduction was tripled to £120, with the Zone B rate left unchanged.²⁴ The Australian Government introduced dependant loadings in 1958, allowing taxpayers to claim a larger deduction if they maintained dependants and were thus eligible for certain dependant deductions or rebates.²⁵ This amount was originally worth half of the

²³ 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 \$2930 (\$1465) in 2018-19. However, as the ZTO is now available as a tax offset, these figures cannot be directly compared with the rates of the current ZTO. An offset is provided to all eligible taxpayers at the stated rate, whereas the benefit of a deduction comes from reducing their taxable income, thus reducing the amount of tax owed. The actual benefit of a deduction is therefore less than the ‘headline’ value, and depends on a taxpayer’s marginal tax rate.

²⁴ *Income Tax Assessment Act 1947* (Cth), s. 14.

²⁵ The additional concession is calculated by multiplying the dependant loading by the applicable dependant rebate, which is added to the base Zone A or Zone B concession. Some rebates are notional only; taxpayers

relevant dependant concession for residents of Zone A, and one twelfth of the concession for residents of Zone B.²⁶ Originally, these concessions were available for dependent spouses, housekeepers, daughter/housekeepers, invalid relatives, and sole parents, as well as notional rebates for dependent children (ATO 2019c).

Table 4.1 Income tax zone concessions over time

Financial Year	Concession type	Concession rate (\$ 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).
.. Not applicable

Sources: ATO (*Taxation Statistics 2016-17, Individuals snapshot table 1*); *Income Tax Assessment Act 1936* (Cth), s. 79A (various amendments).

In 1966, the deductions were converted from pounds to dollars as part of the decimalisation of the Australian currency. Later, 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 tax 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)

cannot claim them directly, but they can be applied using the dependant loading to allow taxpayers to claim a larger zone tax concession.

²⁶ *Income Tax and Social Services Contribution Assessment Act 1958* (Cth), s. 8.

from any town with a population of 2500 people or more.²⁷ The special area rebate was originally set at \$750 (about three-and-a-half times the Zone A rate at that time).

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).

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.²⁸ The offsets have remained unchanged since 1993-94.

²⁷ 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)).

²⁸ *Taxation Laws Amendment Act (No. 5) 1992* (Cth).

Over time, the Australian Government has restricted the types of dependants for whom taxpayers can claim a dependant loading.

- The housekeeper and dependent spouse rebates were repealed by 2014-15.
- Rebates for dependent children (for a sole or partnered parent) now exist only as ‘notional rebates’ for the purpose of calculating the dependant loading for the ZTO and the overseas forces tax offset (OFTO). These rebates have not changed since 1981-82 (ATO 2019c).
- The invalid and invalid carer offset remains available as a standalone offset, and increases annually in line with the Consumer Price Index (CPI).

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).²⁹

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 amendment increased the rate of the offset for particularly remote areas but did not introduce new regions into the arrangements.
- 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.³⁰ This residency test was changed in 1982 following the Cox Review, allowing individuals who had lived a full

²⁹ 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.

³⁰ *Income Tax Assessment Act 1945* (Cth), s. 11.

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.³¹

The residency test was again revised in 2015 to require that a taxpayer's *usual* place of residence was within the zones.³² This means that 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 change was made 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, and claimed the ZTO (O'Dwyer 2015).

Policy rationales

The rationale for the concessions has shifted since their inception. The 1981 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 (or compensation for) some of the 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 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 as 'compensation' or 'regional assistance'. (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.

The average per-person claim for the ZTO was \$319 in 2016-17. Total claims that year were worth about \$153 million in reduced tax revenue, making the ZTO a relatively small concession when compared with other tax offsets — for instance, the Seniors and Pensioners Tax Offset and the Australian Super Income Stream Offset are jointly worth about \$1.4 billion annually (ATO 2019c).³³

³¹ *Income Tax Assessment Amendment Act 1982* (Cth), s. 10(c).

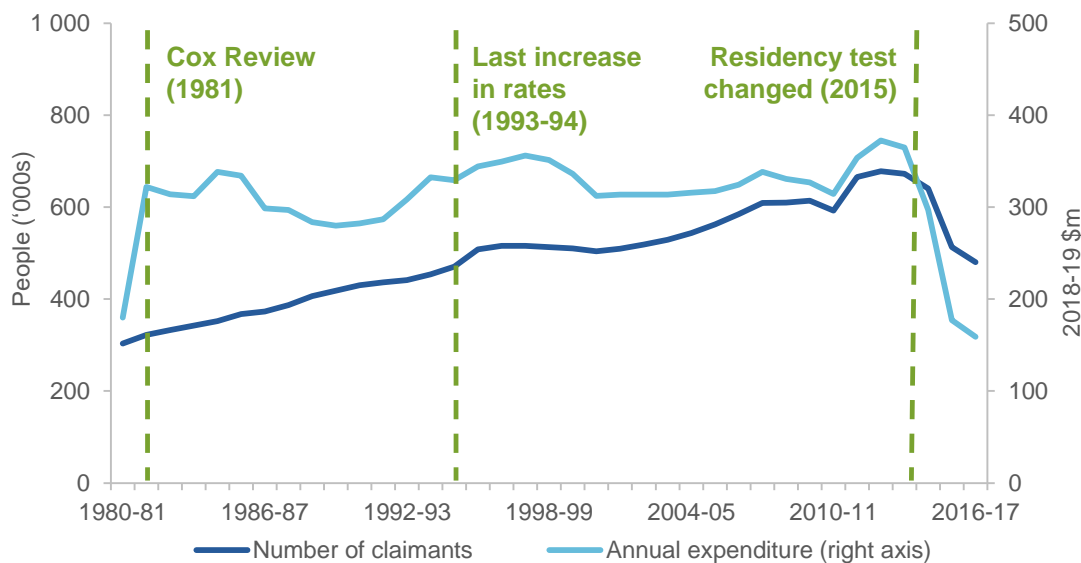
³² *Tax and Superannuation Laws Amendment (2015 Measures No. 5) Act 2015* (Cth), schedule 2.

³³ 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, between 2014-15 and 2015-16 the number of claimants decreased by about a fifth, and in 2016-17 the share of Australian taxpayers claiming the ZTO and OFTO was the lowest since 1980 (ATO 2019c). As a consequence, the budgetary cost of the concession fell by 40 per cent.

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 (*Taxation Statistics 2016-17, Individuals detailed table 1*).

There are two main reasons for the recent decline in ZTO claimants and 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 dependant rebates 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 or 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.

Most claims are made by residents of ordinary Zones A and B (about 414 000 people), with only about 28 000 claimants residing in special areas (table 4.3).

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^e</i>	13	3	6	4	452
<i>Other</i>	11	2	6	4	530
Regional cities ^f					
<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* areas. ^e Major cities include Sydney, Melbourne, Brisbane, Perth, Adelaide, Canberra and Newcastle. ^f Defined by ABS urban localities.

Sources: ABS (2018c); ATO (*Taxation Statistics 2016-17, Individuals detailed table 1*); Commission estimates based on unpublished ATO data.

About 38 000 claimants recorded an out-of-zone postcode. This cohort would largely consist of taxpayers who resided in the zones during the financial year, but moved elsewhere before filing a tax return.

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 financial year

Zone	Claimants	Total claims ^a	Average claim
	'000 people	\$m	\$ per person
Ordinary Zone B	291	39	133
Ordinary Zone A	123	63	511
Special areas	28	32	1 146 ^b
Other ^c	38	19	496
Total^d	480	153	319

^a Refers to ZTO claimed by taxpayers, which exceeds the amount actually received. ^b Average claim is less than the base rate because some taxpayers did not reside in a special area for the entire financial year.

^c Includes claimants who recorded out-of-zone addresses, overseas addresses, and postcodes not linked to a geographical area. ^d 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), claimed the ZTO or OFTO. Even so, a substantial cohort of people who are nominally eligible for an offset did 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 that year.³⁴

Many ZTO claimants live outside the areas defined by the ABS as *remote* and *very remote* areas.³⁵ 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 people) were by residents of ABS *inner* and *outer regional* areas (table 4.2). Many of these claimants resided in the four largest cities in the zones: Townsville, Cairns, Darwin and Mackay. These four cities alone account for nearly half of total claimants, and about 30 per cent of claims by value.

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

³⁴ Commission estimates based on unpublished ATO data. Some taxpayers may not have met the residency test: they may only recently have moved to a zone and not yet resided there for six months.

³⁵ The ABS 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 centres (chapter 1, box 1.2).

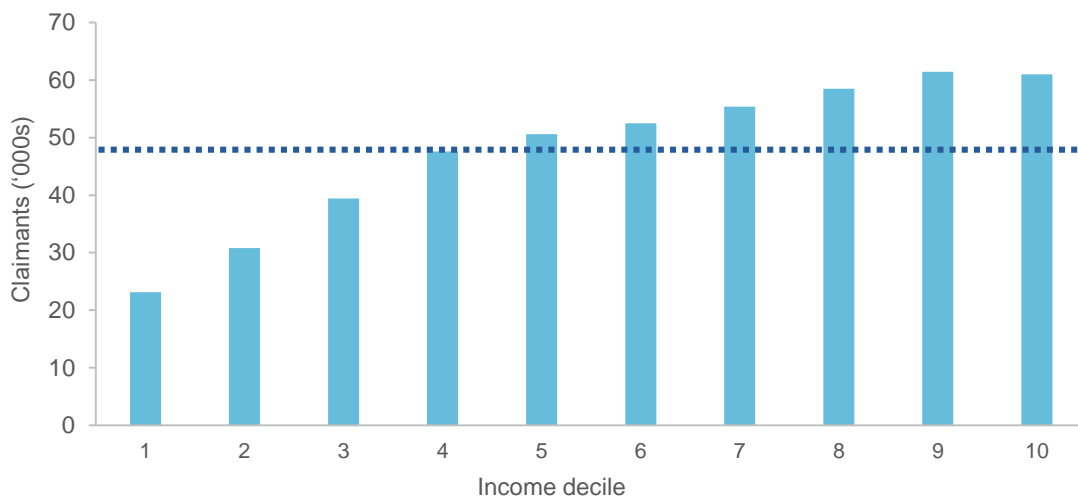
Commission's (above) estimate that only about three quarters of taxpayers residing in zones actually claim an offset, this suggests that some 24 000 Indigenous Australians claim the ZTO (most of whom reside in the Northern Territory).

Many ZTO claimants earn above-median incomes

As discussed in chapter 2, many residents of remote Australia receive greater remuneration than do employees in similar work elsewhere in Australia. Similarly, incomes are generally higher in the ZTO zones than elsewhere.

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 full cash benefit of the offset as some people would not have had enough gross tax to offset.

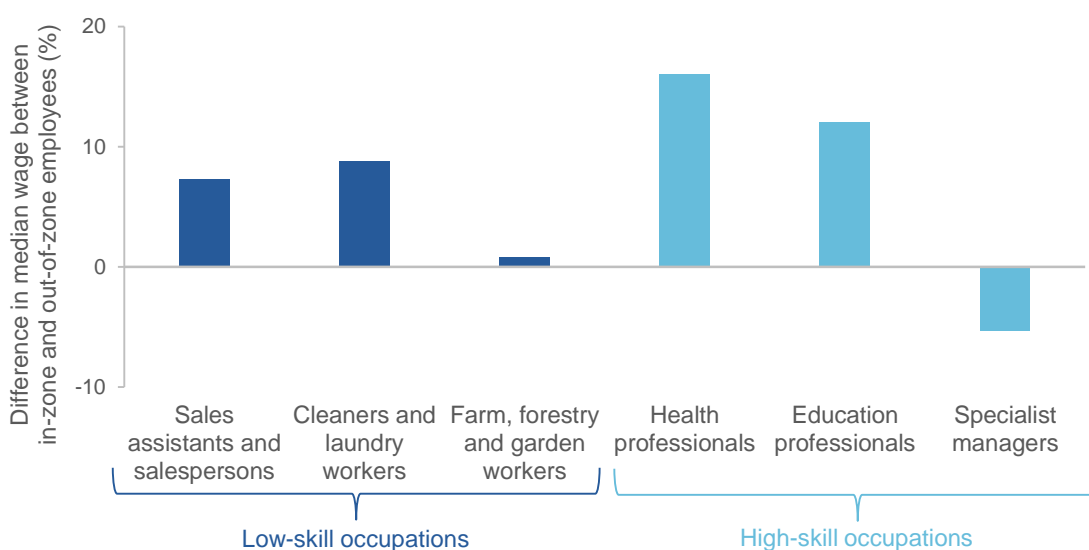
Source: Commission estimates based on unpublished ATO data.

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).

It is unsurprising that ZTO claimants earn higher wages and salaries than Australians in general. In 2016-17, the median wage and salary across the ZTO zones was \$43 000, or

about 16 per cent higher than the national median of \$37 000.³⁶ 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 stems from both the population characteristics of the zones, and any ‘remoteness premiums’ paid by employers to encourage workers to less-congenial areas (chapter 2; box 2.13).

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. Data are not controlled for differences in population characteristics between in-zone and out-of-zone areas, such as variations in the age distribution or level of educational qualification.

Source: Commission estimates based on unpublished ATO data.

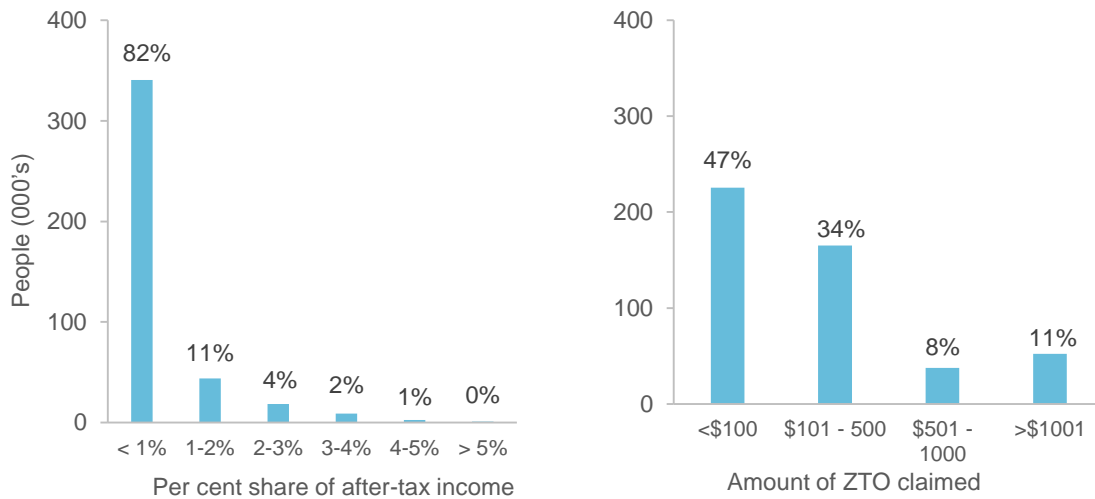
Because the ZTO is not refundable, many individuals on low incomes do not benefit from the full offset; this is true of those who do not pay income tax (because of the tax-free threshold), or who owe less tax than the relevant ZTO rate. In 2016-17, about one-in-six claimants paid no net income tax and some (if not most) of those did not receive the entire ZTO rebate (that is, they did not receive the full amount that they claimed).

The ZTO provided a tax offset of less than \$100 to almost half of all claimants in 2016-17 (figure 4.6). As a result, the ZTO was worth less than 1 per cent of after-tax income for more than 80 per cent of claimants. However, about 11 per cent claimed more than \$1000 in 2016-17.

³⁶ Commission estimates based on unpublished ATO data. Includes all taxpayers who filed tax returns in 2016-17, including those with zero taxable income.

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 once a deduction, simply comparing the rates is misleading (as explained in footnote 9 above). Further, the benefit of a tax deduction (to the taxpayer) depends on the marginal tax rate faced. The benefit varies over time along with changes in incomes and tax rates — even when the deduction itself does not change.

To account for these issues, 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.³⁷ 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).

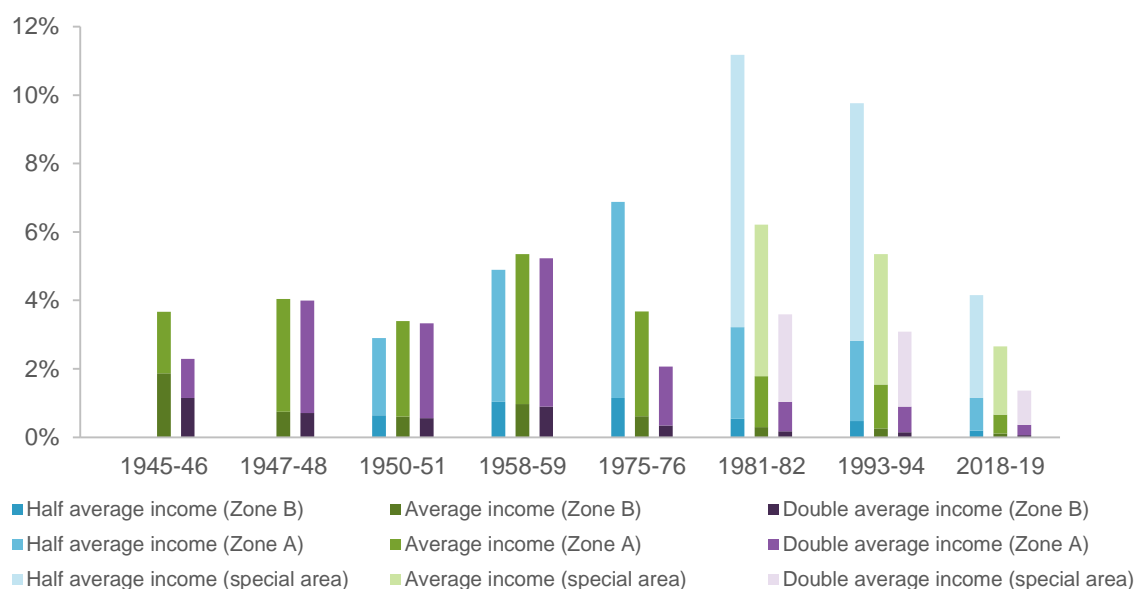
³⁷ While the average income of ZTO claimants is unlikely to match the national average, suitably granular data are not available over the historical record.

The value of the concession 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). (Today, the ordinary Zone A offset represents less than 1 per cent of after-tax income for the average wage earner.)

- To approximate the same share of after-tax income as in 1945, the Zone A offset would have needed to be about \$1890 in 2018-19.
- If adjusted for inflation (using the CPI), the Zone A offset in 2018-19 would have been about \$795 (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 both ABS wage data (various years) and ATO (*Taxation Statistics 2016-17, 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 \$2750 in 2018-19.
- If adjusted for inflation (using the CPI), the Zone A offset in 2018-19 would have been about \$1490.

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>				
<i>Isolated area deduction</i>	(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	100 x (6 ÷ 3) %	3.7	5.3	1.9
<i>Equivalent rebate in 2018-19</i>				
Equivalent offset	Adjusted for inflation ^b	\$ 795	1 492	405
	As share of income ^c	\$ 1 887	2 753	961

^a Assuming no other deductions or offsets were utilised. ^b After-tax value of the deduction, converted into 2018-19 currency by the national annual consumer price index. ^c Based on an average gross income of \$63 742 in 2018-19.

Sources: Commission estimates based on: ABS wage data (various years).ABS (*Consumer Price Index, Australia, September 2019* Cat. no. 6401.0), and ATO *Taxation Statistics 2016-17, Individuals snapshot table 1*.

The Zone B concession followed a clearer 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 \$960 in 2018-19.
- If adjusted for inflation (using the CPI), the Zone B offset in 2018-19 would have been about \$405.

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 Zone A and Zone B concession rates can oversimplify how the value of the concession has changed over time. Dependant loadings, introduced in 1958-59, add to the value of the offset for about one third of current ZTO claimants (table 4.5). The dependant concessions are not formally indexed, but have increased over time (ATO 2019c). And the loadings applied to the ZTO were increased substantially in 1981-82.

Table 4.5 Value of notional dependant rebates
Maximum value for a partnered taxpayer, 2018-19

		Number of dependent children			
		None	One	Two	Three
		\$ per year	\$ per year	\$ per year	\$ per year
Notional dependant rebate (per dependant)		0	376	376/282 ^a	376/282 ^a
Zone	Dependant loading rate	Value of zone tax offset (including dependant loading) ^b			
Zone B	20%	57	133	208	283
Zone A	50%	338	526	714	902
Special areas	50%	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 Calculated by multiplying the notional rebate by the dependant loading rate for each dependant, which is added to the base rebate. Assumes any additional dependants are full-time students under 25 and are earning no income. Figures are rounded up to the nearest dollar.

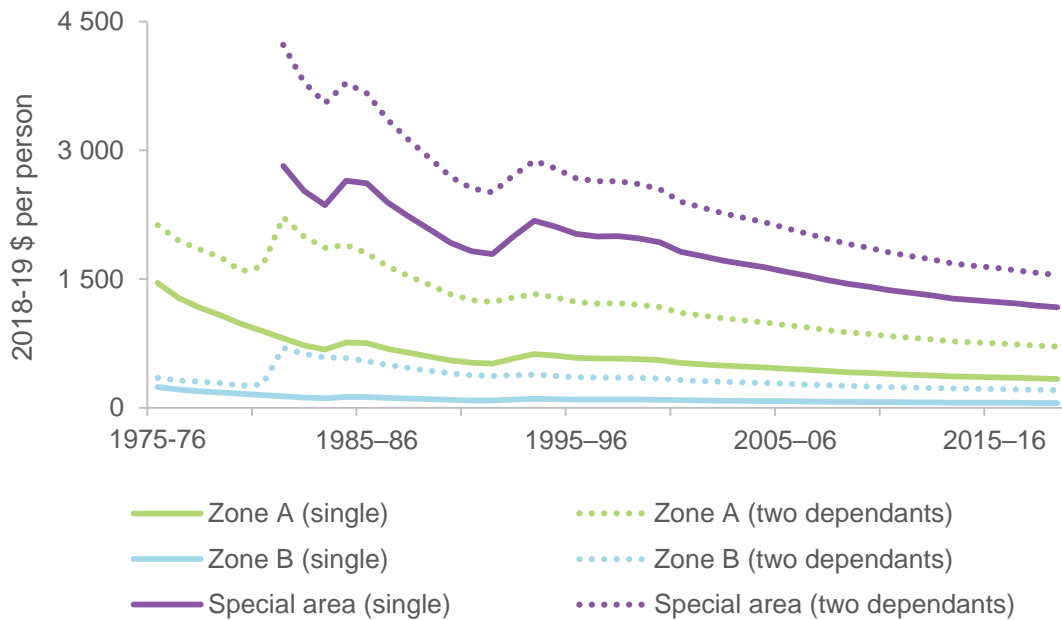
Source: ATO (nd).

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 by 2014-15. At present, dependant loadings are only applied to ‘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 6 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* time — 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 \$3200 in 2018-19.
- If adjusted for inflation (using the CPI), the special area offset in 2018-19 would have been about \$2820.

Figure 4.8 Change in the real value of the zone tax offset^a
1975-76 to 2018-19



^a Calculations for two dependants assume both are eligible for the highest rebate.

Sources: ABS (*Consumer Price Index, Australia, September 2019*, Cat. no. 6401.0); ATO (*Taxation Statistics 2016-17(2019c), Individuals snapshot table 1*).

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.

4.5 Economic and employment effects

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 subsidises employment within the zones (at the expense of out-of-zone regions) by increasing the financial returns (to employees) for engaging in paid work, and/or reducing the cost (to employers) of hiring a worker.

Although the offset is provided directly to employees through their tax returns (the ‘accounting incidence’), the benefit of the subsidy (the ‘economic incidence’) may not accrue to workers. In a flexible labour market, employers can capture *some* of this benefit by reducing wages in response.

The share of the subsidy that is enjoyed by employees (as higher after-tax income) affects whether the ZTO provides enough of an incentive to encourage workers to relocate to the targeted regions (or encourages workers within the zones but not in the labour force to seek paid work). In the first instance, this depends on the relative elasticities of labour supply and demand, which measure how responsive workers and employers are (respectively) to changes in wages. Labour elasticities are not fixed. They vary by region, depending on (among other things):

- occupation types (including 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 relative employee-employer bargaining power).

Other aspects of regional or remote labour markets also affect whether employees benefit.

- In a fully competitive market (where employees are mobile and relocation costs are small), the benefits of the wage subsidy would dissipate. Employees would move to the zones to access higher after-tax incomes, and increased labour supply would drive down wages.
 - After-tax incomes would not be higher, so individual employees would not benefit. However, employment would be higher in the zones.
- But in a less-competitive labour market, wages may not decrease to the same extent. After-tax incomes would remain higher within the zones than elsewhere, providing an ongoing incentive for workers to move to the zones.
 - That said, if the cost of moving to the zones is high, the value of the ZTO would need to exceed those costs to provide a sufficient incentive to relocate. If not, the benefits of the ZTO would be primarily captured by local workers as higher after-tax income.

Source: Kline and Moretti (2014).

If businesses or workers do relocate in response to the ZTO, the economic consequences beyond the zones could affect the productivity of the Australian economy as a whole. There are also distributional effects because it costs the government revenue, which must be recovered through either, or a combination of, other tax measures, reduced government spending, or higher government debt. 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 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 2014a), 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.

Regional and remote population growth

In principle, 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).

In practice, the size of this effect will depend on:

- how important financial incentives are in relocation decisions
- 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 2014a). Differences in housing, employment, social and economic infrastructure, and a person's skills or level of education, also play a prominent role in choosing between different locations (PC 2014a). That said, real wage differentials and employment growth do play a role in influencing regional migration within Australia (PC 2014a).

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). Along this line, 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 2014a). As noted by the World Health Organization (WHO 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. 14) 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 2019).

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 2014a). 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 to 1961, 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 (between 1947 and 1949), but that this effect disappeared in the following years.

This indicates that the initial windfall of obtaining a (significant) concession is likely to have affected people's decisions to relocate, but that there was less of an ongoing effect.

... but this does not make the ZTO an effective way to attract or retain people

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 ordinary Zone B offset (\$57) was barely noticeable, let alone capable of providing an 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) 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 the zones are unaware of the ZTO, and it is highly unlikely that they would include it as part of their decision making.

The Cox Review (1981, p. 19) was also critical of the use of the tax concession as a tool to encourage decentralisation — that is, to entice workers away from cities by encouraging them to move to the zones. The review said:

... 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 to encourage people to relocate from metropolitan areas to regional and remote Australia therefore appears to be limited. (The merits of seeking to achieve decentralisation through zone tax incentives are discussed further in chapter 5.) If the ZTO does not encourage people to relocate to remote areas, it functions as a windfall gain (albeit a small one) for people who already live in the zones or who would choose to relocate anyway. In this way, it may slow population decline at the margin by encouraging existing residents to stay, thus helping *maintain* population in remote areas.

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.

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 \$470 a year for a single person, which exceeds the ordinary Zone A offset (\$338) but is considerably lower than the special area offset (\$1173).

For people claiming both an income support payment and a wage (such as part-time workers), 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 be a slight *disincentive* for unemployed people in ordinary Zone A to enter the workforce, and would reduce the marginal incentive to work more hours in the special areas. (And, of course, these incentives would be significantly less influential than people's other motivations 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 locate 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 several participants³⁸).

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

³⁸ The King Island Chamber of Commerce (sub. 21), AgForce Queensland Farmers (sub. 94), CQ University (sub. DR109), and examples provided during the Commission's visits to Darwin and Lord Howe Island.

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. 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 to lower income earners as a proportion of their income. 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. To the extent that the additional income is spent locally, 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), or other sectors with inelastic supply. 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 difficulties of life in remote Australia.

These difficulties are generally taken to be: uncongenial climatic conditions, isolation (and the limited access to services it generally entails) 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 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 the higher cost of living as the main basis for the ZTO, while also taking into account other difficulties of life in remote Australia.

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 outdated, and include areas that are no longer isolated
- the size of the concession has not kept pace with changes in the cost of living, and is inadequate to compensate for the difficulties 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 outdated

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 evolution 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 objective, the Commission has used ABS remoteness areas to help determine what areas are considered remote in contemporary Australia (chapter 1).

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 with 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.

The Commission has found some evidence that the current zones (in aggregate) do reflect differences in cost of living. Living costs in much of ordinary Zone A and the special areas of both zones are higher than in major cities (appendix B). However, the cost of living in some regional centres in the zones (particularly in ordinary Zone B) is lower than, or not significantly different to, that 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 (appendix B). For example, Mount Isa (ordinary Zone A) had a price level only 2.6 per cent higher than Brisbane in 2015. By contrast, price levels for towns in ordinary Zone A in Western Australia were on average 13.2 per cent higher than in Perth in 2019.

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 travel on the rougher roads found in more remote areas, and some roads may be impassable for part of the year.

The status of Nhulunbuy, in the 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, which meant Nhulunbuy (and surrounding areas) became eligible for the special area rebate.³⁹ This remains the case today.

³⁹ *Taxation Laws Amendment Act (No. 4) 1990* (Cth).

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 to Woomera 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 calls into question 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.

Some currently eligible areas cannot be considered remote

Many submissions held that 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.⁴⁰

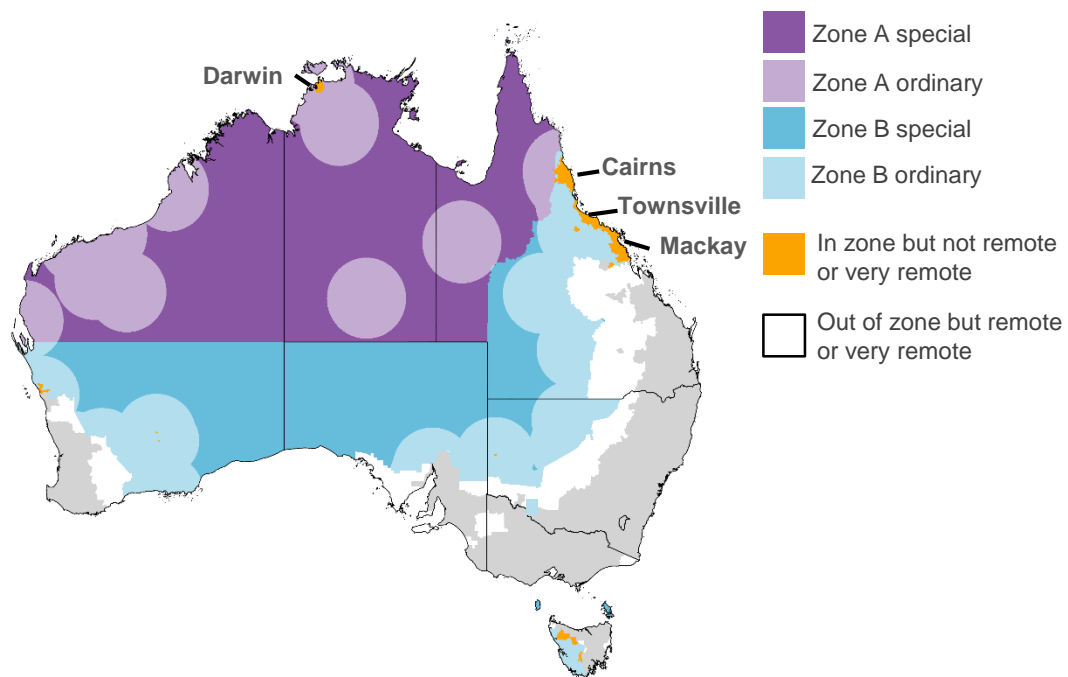
As highlighted in chapter 2, these coastal areas have developed considerably since the 1940s (a case study on Cairns is provided in box 2.2). Cairns and Darwin each have (sizeable) international airports and populations of more than 130 000 people. Both places, along with Townsville (population 180 000) and Mackay (80 000), are regional cities in their own right, with easy access to key services, well-developed retail markets and good transport connections to capital cities.

A more contemporary measure of remoteness, published and periodically updated by the ABS, defines much of the north-east coast of Queensland, as well as Darwin, as *outer regional*, and not *remote* or *very remote* (figure 4.9). Similarly, the Commission has found that living costs

⁴⁰ 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; Adam Woodhouse, sub. DR101; Paul Traeger, sub. DR130; BDO, sub. DR141; Pastoralists' Association of West Darling Inc., sub. DR183.

in ordinary Zone B communities are (on average) not significantly different to those in their respective capital city. Again, however, this hides divergence *within* the zones; the cost of living in ordinary Zone B in Queensland (including Cairns, Townsville and Mackay) is not significantly different to that in Brisbane, but the cost of living in ordinary Zone B in Western Australia is somewhat higher than in Perth (appendix B).

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. Experimental work by Phillips et al. (2012) suggested that, in December 2011, Darwin was one of the more expensive capital cities to live in. However, prices in Darwin have since grown more slowly than prices in the other capital cities (appendix B, section B.4). Although Darwin residents have paid more for housing in recent years than the average for the other capital cities, transport costs are lower, and food and grocery costs are similar to those in other capital cities (appendix B). Overall, the available evidence does not support the conclusion that the cost of living in Darwin is significantly higher than in the other capital cities.

Similarly, some *very remote* areas (based on the ABS classification) receive a small offset as part of ordinary Zone B, or lie outside the zones — in particular, 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 tax offset rate as Townsville, which is classified as *outer regional* (figure 4.9). And Ceduna (South Australia) is a *very remote* town that is not within any zone.

The boundaries of any future ZTO must be refreshed

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 their residents can no longer be considered isolated, and in many areas eligible for the ZTO (particularly in ordinary Zone B), the cost of living is lower than, or not significantly different to, that in their respective state capitals. Change in other areas has created anomalies along the zone borders, while several ineligible places appear to be as remote as many eligible areas (if not more so).

If the ZTO were to continue in some form, the boundaries would need to be updated to better align eligibility with the legislated objective. Options for doing so are considered in chapter 5.

The ZTO is a modest sum for most claimants

A near-universal view in submissions to this study was that the ZTO rates are inadequate to compensate for the disadvantages of remote living.⁴¹ Many participants made reference to specific costs — including freight, travel (such as fuel and flights), more expensive insurance, lack of choice, and poor access to services — which they contended vastly outweighed the value of the ZTO. One Kalgoorlie-based submitter in ordinary 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)

And a Cairns resident took issue with:

... the piddly zone offset we regional people ‘enjoy’. Goodness me – Cairns, Townsville and Darwin get a zone offset of \$57. This would not even buy a coffee each week. (Megan O’Neil, sub. DR195, p. 1)

As concluded in section 4.4, the size of the rebate has fallen significantly in real terms for most claimants. Several submissions also pointed to the decline in the real value of the ZTO over time (discussed above) as evidence that the ZTO was too small to achieve its objectives

⁴¹ Alexander Fullarton, sub. 1; Hits Radio, sub. 11; Julie Fullarton, sub. 12; John McLaren, sub. 14; Michelle Landry, sub. 16; Carpentaria Shire Council, sub. 20; James Potter, sub. 25; Murweh Shire Council, sub. 27; Capricorn Enterprise, sub. 47; Northern Territory Government, sub. 60; Ernie and Kylie Camp, sub. 64; LGANT, 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; NFF, sub. 85; Fiona Haslam-McKenzie, sub. 89; Carissa Ives, sub. DR110; BDO, sub. DR141; PVW Partners, sub. DR169; Megan O’Neil, sub. DR195.

(Capricorn Enterprise, sub. 47; King Island Council, sub. 75; Department of Primary Industries and Regional Development (WA), sub. 82).

If the ZTO were intended to compensate residents for the higher costs of living and other difficulties of life in remote Australia, the rates would be inadequate for this purpose.

Participants also observed that some taxpayers 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 means the ZTO is not well-targeted to taxpayers on lower incomes — although the RAA would be available to many of these individuals (chapter 6).

The ZTO has little effect on where people decide to live and work

Submissions to this study also observed that the ZTO was too small to encourage people to move to the zones from elsewhere in Australia.⁴²

The question of whether the ZTO encourages people to relocate to live within the zones has been addressed in section 4.5. As currently implemented, the ZTO is a minor tax concession provided directly to taxpayers (usually) once a year where specific eligibility criteria are met, and the Commission found no evidence to suggest that the current ZTO encourages people to live and work in the zones.

Whether or not the ZTO should be designed to encourage people to relocate to the zones is considered in chapter 5.

FINDING 4.1

The design of the zone tax offset (ZTO) is outdated.

- The boundaries have not kept up with changes in remote Australia, and nearly half of ZTO claimants live in large coastal regional cities.
- Inflation and growth in wages have substantially eroded the value of the ZTO.

Further, there is no evidence to suggest that the ZTO encourages people to live and work in the zones.

⁴² 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; LGANT, sub. 66; NFF, sub. 85; Fiona Haslam McKenzie, sub. 89.

5 The future of the ZTO

Key points

- Tax concessions are less transparent than direct government funding, and increase the complexity and efficiency costs of the tax system.
- There is no compelling justification for the zone tax offset (ZTO) or a similar geographically-based income tax concession in contemporary Australia.
 - All Australians face advantages and disadvantages in where they decide to live, and can typically locate themselves in the area they value most highly. While living costs in remote Australia are higher, many residents receive more generous remuneration to work in those areas. There is no general role for the Australian Government to augment these dynamics.
 - The development of a region primarily succeeds (or otherwise) based on that region's advantages and disadvantages, which can change over time, and its vulnerability to economic shocks. Attempts by governments to create an artificial advantage for a community, or to attract people to live in high-cost areas through tax concessions, are unlikely to be effective — and typically result in net losses to the broader Australian community.
 - Any inequities or economic distortions imposed by the income tax system in remote areas are likely to be small and cannot be addressed efficiently by an income tax concession.
- Similarly, there is no credible case for government intervention to assist businesses to set up in a particular area. Governments should focus on creating an environment for businesses to succeed without regard to location.
- The ZTO (and the related overseas forces tax offset) should be abolished. Doing so would have few significant impacts, given the value of the offset relative to incomes. For nearly two thirds of those who would lose the concession, the loss is about \$2.50 a week. In limited cases, abolishing the ZTO could have more discernible impacts.
- If retained, the ZTO should be reconditioned. It should be restricted to the ABS *very remote* areas and be set at the current ZTO special area rate. The Commission does not support indexing the offset, income-testing the concession, or providing an additional offset for taxpayers with dependants.
- The Commission has not sought to endorse any specific measure to support regions in lieu of the ZTO. Should governments elect to provide alternative measures, they should be cautious of applying top-down approaches, as any measure must account for local conditions and priorities. State, Territory and local governments should take the lead in regional development, supported (where required) by the Australian Government.

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. Notwithstanding ongoing change in remote Australia (chapter 2), the Australian Government has made only minor tweaks 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 outdated.

- Most significantly, the boundaries have not kept up with changes in remote Australia, and nearly half of ZTO claimants live in large coastal regional cities.
- Inflation and growth in wages have substantially eroded the value of the ZTO.
- There is no evidence to suggest that the ZTO encourages people to live and work in the zones.

While the flaws in the ZTO mean that at the very least it should not continue in its current form, the larger question is whether a ZTO is warranted at all. Nearly all participants argued that the ZTO should continue in some form, although 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).

This chapter assesses whether there is a role for the ZTO or a similar tax concession in contemporary Australia (section 5.1) and considers the appropriate ongoing form and function of the ZTO, if retained (section 5.2). It then considers whether there is a case for providing specific tax concessions to businesses in remote areas (section 5.3), and discusses alternative mechanisms to support residents of particular areas (section 5.4).

Box 5.1 Participant 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) said:

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 'returned to individuals at regular intervals rather than annually'. Alexander Fullarton (sub. DR102, p. 1) submitted that the ZTO should be updated.

... its boundaries should be redrawn to more accurately reflect social and economic amenities currently existing in some cities in 'the prescribed area', and significantly increased to reflect the current comparative values of incomes and taxation rates between residents of 'the prescribed area' compared to residents in other parts of Australia.

Page Research Centre (sub. DR105, p. 5) proposed trialling a more limited ZTO which would provide 'a targeted and more substantial tax rebate to individuals in selected tightly defined areas with substantial economic development potential'.

Other submissions emphasised the importance of the ZTO, and the potential adverse effects of losing it. Weipa Town Authority (sub. DR121, p. 2) suggested that abolishing the ZTO and other concessions would 'negatively affect the economy for areas such as Weipa' and lead to 'disadvantage, missed local business opportunity and economic decline for many remote towns across the North'. 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.

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:

- to compensate for the disadvantages of living in remote areas — such as an uncongenial climate, isolation and a higher cost of living
- to support specific regional and remote areas
- 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.⁴³ These arguments are outdated and lack merit in contemporary Australia. They have not been considered further.

The Commission's approach

As outlined 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 assist individuals, businesses and communities in regional and remote Australia (chapter 3).

The ZTO is a small concession that sits alongside those existing measures. 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 the costs, and whether an income tax concession is the best available way to address that policy issue (box 5.2).

Many submissions to the study, particularly after the draft report, argued that the ZTO should be retained (and expanded in its coverage and substantially increased) on the basis that it benefits people and communities in the zones — with little consideration of whether the

⁴³ 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).

offset can be justified in terms of its economy-wide benefits and costs. Given that the ZTO represents a transfer to taxpayers within the zones from taxpayers elsewhere in Australia, the Commission considers that the ZTO must be justifiable on grounds beyond the effects on, or interests of, those who benefit directly from it.

Box 5.2 **The merits of income tax concessions as policy instruments**

Income tax concessions 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 noted that such assistance is 'not transparent, timely or well targeted' (Henry 2009b, p. 30), and should be provided only where an ongoing need cannot be better met by other means (such as other government programs). 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; CAANZ, sub. DR167)
- are less transparent than direct expenditure, which is subject to an appropriation by Parliament and can be publicly scrutinised (Sadiq 2008; CAANZ, sub. DR167)
- require (arbitrary) boundaries for eligibility, which can create anomalies between people who benefit and those who do not, and distort decision making by encouraging individuals to restructure their affairs to qualify for an offset (Sadiq 2008)
- are available only to those who file tax returns, and are limited in their capacity to assist some groups (such as retired people, the unemployed, or low-income Australians).

Compensation for the difficulties 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.⁴⁴

AgForce Queensland Farmers (sub. 94, p. 1) said: 'The original intent of the policy as outlined by Chifley in 1945 is still supported'. Many other submissions likewise highlighted this as an ongoing justification for the ZTO.⁴⁵ And the 1981 Cox Review recommended retaining the ZTO on what it termed 'social' grounds (Cox et al. 1981, p. 31).

⁴⁴ *Income Tax Assessment Act 1936* (Cth), s. 79A(1).

⁴⁵ For example: John McLaren, sub. 14; Murweh Shire Council, sub. 27; Central Land Council, sub. 35; Townsville City Council, sub. 68; WALGA, sub. 79, sub. DR124; Department of Primary Industries and Regional Development (WA), sub. 82; Fiona Haslam-McKenzie, sub. 89; Alexander Fullarton, sub. DR102; Northern Territory Government, sub. DR119; Livestock South Australia, sub. DR149;

People weigh up the pros and cons of residing in different places

Chapter 2 confirmed that, although the difficulties of living in remote Australia have diminished over time, difficulties remain that affect the lives of many remote residents.

- Residents of remote areas pay higher prices for many goods and services including food, transport and fuel, and quality is poorer in some cases (such as for telecommunications).
- 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 — for example, in areas that are cut off regularly by torrential rain.

Chapter 2 also pointed to the positive aspects of life in parts of remote Australia, and the reasons why some Australians decide 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. Faith Morris (sub. DR146, p. 1) outlined a range of other reasons why people might stay in particular areas.

They may have been born in a remote area, their parents may have brought them to a remote area as children and they have grown up and made their life in the same area; they may have been transferred there for work; they may be legally required to live remotely for visa conditions; they may live remotely for health reasons. And let's not even touch on Indigenous Australians and land rights.

Further, while others may not enjoy the nature of remote living, they are often financially compensated by their employer for working in those areas — chapter 2 pointed to a range of employers, including State and Territory governments, that offer higher wages, allowances and improved employment conditions to workers in remote Australia.

All these advantages and disadvantages factor into the decisions households make about where to live, and if and when to move. People would generally be expected to live in 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 outweighed 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 overall (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 capable of moving to remote areas in pursuit of opportunity, and can leave if and when they are better off doing so, then there is no reasonable case for compensation

CAANZ, sub. DR167; SWRED, sub. DR187; Tasmanian Government, sub. DR188; NFF, sub. DR191; Department of Defence, sub. DR196.

for the disadvantages of remote living from the Australian Government, whether in the form of the ZTO or any other measure.

What if remote residents cannot move?

While most Australians are able to freely decide where they live, some people in remote Australia may not be able to relocate as easily — whether for reasons of cost, or of feeling personally or culturally anchored in a place. People in these circumstances would be less able to avoid the disadvantages of life in remote Australia. As one submission put it:

... we were resigned to country life but not for any economic or social reasons – now it was convenience – I would still find it hard to get a position [in] the metro area anyway and the costs and work involved in relocation put me off moving. (Antony Holden, sub. DR100, p. 1)

There are a few circumstances where mobility might be constrained in remote areas.

- Many Indigenous Australians reside in remote Australia and hold an ‘inherent cultural connection and obligation to country’ (NATSIHA, sub. DR137, p. 1).
- Individuals on lower incomes tend to be less mobile overall for a few reasons (chapter 2).
 - Moving is costly, especially over long distances 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.
 - Residents of social housing may face disincentives to relocate to or from particular areas, as moving risks them losing access to their housing (QPC 2017).

At present, these less-mobile households are poorly targeted by the ZTO. Not only is a tax offset unavailable to low income households whose primary income is through the welfare system, but income-earners must owe enough tax to receive the full benefit of the offset. By that same token, the ZTO casts a wide net; it is available to many workers who are *already* compensated by their employers for the disadvantages of living and working in remote areas.

By contrast, and as discussed in chapter 6, households that lack the resources to be mobile and/or have a strong (Indigenous) connection to country are more likely to be beneficiaries of the remote area allowance (RAA). The Commission has recommended that the RAA should be retained (and better targeted) in recognition that some low-income residents of remote Australia may be effectively ‘stuck’ in those areas.

The difficulties of life in remote Australia do not justify a tax concession

In sum, the Commission does not consider that the difficulties of life in remote Australia justify a generally-available income tax concession.

While life remains challenging in parts of remote Australia, there is no compelling reason for governments to compensate residents for those challenges. A place-based tax concession is a poor tool — it does not address the underlying difficulties and is poorly targeted. It benefits many people who are already well-compensated by their employers for living and working in remote areas and it is those employees who tend to be most mobile. By contrast, the tax concession does not support those who are in most need and are least mobile.

At a minimum, support should be targeted on the basis of need, rather than being broadly available. Governments already provide a range of targeted measures to directly address some of the specific disadvantages faced by residents of remote areas. These include patient travel assistance schemes (which help remote residents access healthcare) and allowances for isolated children to access education (chapter 3).⁴⁶ Further, in the case of natural disasters (such as the 2019-20 bushfires), governments provide targeted measures to assist those people and communities most directly affected.

To the extent that such measures are inadequate, the appropriate response would be for the relevant governments to improve them, not to provide a generally-available tax concession. This point is discussed further in section 5.4.

Assisting regional or remote areas

Several participants argued for the ZTO as a way to promote regional economic development, or (more generally) to support particular regional or remote communities.⁴⁷ A prevailing view was that the ZTO should provide a financial incentive encouraging people to move to, work and live in specific parts of regional and remote Australia — thereby helping to increase the population, fill labour shortages, increase economic activity and support local economic growth in those areas.

What are the suggested justifications?

Many arguments were presented to justify the ZTO as a means of supporting particular areas. Some participants see a need to exploit the ‘untapped potential’ in remote parts of Australia,

⁴⁶ Some participants have argued that these schemes are inadequate. For example, Lisa Thompson (sub. 9) viewed the South Australian Patient Assistance Transport Scheme as being unsatisfactory for Kangaroo Island residents.

⁴⁷ For the purposes of this discussion, ‘regional’ encompasses both regional and remote parts of Australia. Similar arguments have been raised in relation to the fringe benefits tax (FBT) remote area concessions (these are discussed in chapter 7).

a view that 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 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 maintain that fulfilling the economic potential of certain regions is 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 attract and retain people in certain regional or remote areas (box 5.3).

Box 5.3 Participant views on the ZTO as regional assistance

Many submissions held that regional assistance 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.

The City of Kalgoorlie-Boulder (sub. DR115, p. 2) also submitted that:

It is in Australia's economic and strategic interests to encourage people to relocate, reside and operate a business in regional Australia, and this should be reflected in Tax legislation.

The Page Research Centre (sub. DR105) and Keith Thompson (sub. 6, p. 3) also suggested a development imperative, with the latter saying:

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.

The Northern Territory Government also proposed that one rationale for the measure was 'incentivising labour and capital to locate to areas where there are identified hardship issues and cost disadvantages' (sub. DR119, p. 2).

Many other submissions from regional areas emphasised specific economic development opportunities. Both Mareeba Shire Council (sub. 13) and SWRED (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.

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.

Several study participants also saw population growth (or retention) in communities as benefitting the existing residents of those communities. Many rural towns are grappling with population decline, which can lead to the gradual withdrawal of services and threaten the viability of local businesses (chapter 2). Some participants 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 could indirectly benefit people in cities by encouraging decentralisation of the Australian population. 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.

And others pointed to the direct impact of putting more money into regional economies through the ZTO. For example, Andrew Mackay (sub. DR140, p. 2) observed that:

[b]ecause of this 'small' special area ZTO or full Zone A ZTO amount, many receive a tax rebate which is then used to go out and purchase items not otherwise afforded, such as fishing gear, car parts, birthday presents, computer upgrades, fancy dinners or be paid towards upcoming bills. This money is used to stimulate the economy in a time when things are really slowing down in my view.

Is there a role for income tax concessions in supporting economic development in regional areas?

The Commission has previously considered the role of government in supporting regional communities — most recently as part of its 2017 *Transitioning Regional Economies* study (PC 2017). The Commission's view is summarised in box 5.4.

Box 5.4 **Government strategies for regional economic development**

The Commission's 2017 *Transitioning Regional Economies* study, alongside other research, set out strategies for successful economic transition and development in Australia.

All levels of government have a role in supporting the wellbeing of Australians in regional and remote areas. This role includes providing public services (such as health, education and community services) as well as infrastructure, enabling a high-quality education and training system to match the supply of appropriately-skilled workers with demand for those workers, and assisting communities in both preparing for and recovering from natural disasters.

Beyond this, there are a few sound justifications for regional development policies:

- Improving the planning and delivery of infrastructure and public services. For example, place-based approaches can improve the effectiveness of service delivery by taking local circumstances into account.
- Specific interventions on market failure grounds, where these interventions would be expected to benefit the wider community. For example, City Deals are designed to overcome coordination failures and align local infrastructure and community priorities across levels of government. Typically, such interventions will only apply to regional communities with strong intrinsic advantages over others (such as access to mineral resources, proximity to large cities, or tourism potential).

The Commission considered that State and Territory governments should be primarily responsible for addressing those market failures, and for leading regional development policy more generally. The Australian Government should limit itself to a supporting role where relevant. This is to ensure that regional development policy is made by those closer to the community who have more of a stake in its success, and to avoid duplicative or contradictory policies and programs.

Sources: PC (2017d, 2019b, 2019d).

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.

The Australian, State, Territory and local governments already provide many programs towards these ends (chapter 3). For example, the Australian Government provides additional payments to doctors to work in remote areas, and subsidies for some utility services like telecommunications. These types of programs are in addition to Australia's system of horizontal fiscal equalisation, which seeks to give each jurisdiction the fiscal capacity to provide a similar level of public services, and notably takes into account the higher per capita expenditure on service delivery in remote areas. Governments, particularly at the State and Territory and local levels, also have programs to support regional economic development.

By contrast, the Australian Government's role in specifically intervening to support economic development in particular places 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, regional 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)

'Potential' for economic development in a particular area is not an adequate basis for ongoing Australian government support. There is usually a good reason why potential opportunities have not yet been developed — it is simply not yet economic to do so. Remote areas are generally costly places to do business, and businesses will only decide to operate there, stay there or invest in projects if they expect the returns on offer to exceed the costs and risks. There is no general need for governments to subsidise this process (as is further discussed in section 5.3) and, when implemented on a geographical basis, such tax policies risk violating the Australian Constitution (chapter 1).

The Commission recognises that well-targeted and efficient regional development programs can be important in fostering economic and population growth in regions that have been affected by temporary negative shocks (such as natural disasters), or in addressing specific market failures where there are net benefits to the community as a whole. Regional development programs should not, however, be a permanent means of support. Ultimately, regions should build upon their own advantages, while addressing their disadvantages, and achieve sustainability not through permanent government support.

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 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 2017d, p. 20)

This is not to say that town decline is inevitable, but rather that, in the face of economy-wide structural change, individual places grow and decline on their own merits. It is a process that is very difficult for governments to control. The Commission does not see the changing fortunes of particular towns 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 2017d).

In its *Transitioning Regional Economies* study, the Commission concluded that the prospects of a region depend not only on its intrinsic relative strengths and weaknesses, but also on its relative vulnerability to economic and other shocks. Further, these relative advantages and disadvantages can change over time, such as during a mining investment boom.

The ZTO is a poor decentralisation tool

Concerns about population pressures in cities also do not provide justification for the ZTO.

In general, governments do best to address any costs associated with congestion at their source — that is, in the cities themselves. For example, Infrastructure Victoria recommends that high demand for city infrastructure should be managed by *increasing* population density in Melbourne around established infrastructure (Infrastructure Victoria 2016a). Similarly, its strategy for addressing congestion focuses on road user pricing in cities, rather than specifically encouraging decentralisation (Infrastructure Victoria 2016b).

Were governments inclined to pursue decentralisation, the ZTO would be a poor tool for that purpose. It largely benefits people who already reside in the eligible area — and, as shown in chapter 4, the ZTO is unlikely to encourage more people to relocate to remote areas unless it is substantially increased. Indeed, some participants proposed increasing the ZTO to amounts in the order of \$10 000 a year. This would provide a large windfall to those living in the zones at an enormous budgetary cost to the Australian Government (rising from about \$150 million to more than \$4 billion a year), and would almost certainly provoke a constitutional challenge to the validity of the ZTO.

Even in 1945, members of Parliament were sceptical about the concession's ability to encourage decentralisation given 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.

Indeed, many people decide where to live based on liveability and lifestyle considerations, including access to services, as well as financial considerations. These other factors could not be addressed by an income tax concession alone, even if it were made considerably larger.

Further, decentralisation from cities could be achieved at a lower economy-wide cost by people relocating to regional centres near the major cities rather than remote areas.⁴⁸ Given their existing lifestyle expectations, most city dwellers would almost certainly prefer nearby regional centres (such as Bathurst or Bendigo) or coastal towns (like Bundaberg or Busselton) to remote places (for example, Burketown or Wilcannia), even if only to remain closer to the major cities. As the Commission found in its *Transitioning Regional Economies* study (2017d, p. 126):

Connectivity to large cities and proximity to the coast are important drivers of the wellbeing of those living in smaller cities and regional centres.

And if governments chose to favour particular areas 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 (box 5.2).

What are the suggested justifications?

Tax equity is a common suggested justification for the ZTO. One form of the argument is that the amount of tax paid by remote residents is not commensurate with the levels of public services available in remote areas (for example: PVW Partners, sub. 59; Adam Woodhouse, sub. DR101). As Ernie and Kylie Camp (sub. 64, p. 5) submitted:

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 in reducing the amount of tax paid, to reflect that remote taxpayers receive fewer government services relative to city or regional residents.

⁴⁸ For example, Archer, Houghton & Vonthehoff (2019) consider that congestion in the major capitals could be addressed by developing and connecting nearby medium-sized cities. Some of these cities include the Gold Coast, Tweed Heads and the Sunshine Coast (near Brisbane), Newcastle-Maitland, Wollongong and the Central Coast (near Sydney), and Geelong, Ballarat and Bendigo (near Melbourne).

Other participants claimed that the disproportionately high level of production or national income emanating from remote areas (and the higher taxes associated with it) justified further government support for those areas.⁴⁹

A further argument is that income taxes for residents of remote areas should be adjusted for higher costs of living to ensure that the real amount of tax paid (that is, tax adjusted for price levels) is the same for people in remote areas as for people in non-remote areas. 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 was discussed above).

This argument has both equity and efficiency dimensions, as higher real taxes on workers can affect labour market decisions. Many employers offer higher remuneration to attract workers to remote areas, partly in recognition that they are high-cost (or otherwise uncongenial) areas⁵⁰; 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. A few study participants alluded to this,⁵¹ with Katherine Trigg (sub. 17, p. 1) submitting that:

Ironically, increased wages and salaries, intended to [compensate] 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.

In practice, the fact that workers in remote areas face high tax rates on their wages may cause employers to offer even higher (pre-tax) remuneration in order to attract the necessary workers. At the margin, this would render some business opportunities in remote areas less commercially viable, and increase costs for providers of public services. In principle, if an income tax concession were appropriately targeted, it could address this distortion. Indeed, this was part of the stated rationale for the introduction of the isolated area deduction in 1945.⁵²

⁴⁹ CQ University, sub. DR109; Northern Territory Government, sub. DR119; Peter Fitchat, sub. DR150; Town of Port Hedland, Shire of East Pilbara, and Shire of Ashburton, sub. DR170; East Kimberley Chamber of Commerce and Industry, sub. DR190.

⁵⁰ 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 result in premiums — which will still attract higher taxes, with consequent labour market effects (Albouy 2009; Hamilton and Decker 1989).

⁵¹ Katherine Trigg, sub. 17; John Juniper, sub. 48; Government of Western Australia, sub. DR145; Livestock SA, sub. DR149.

⁵² In introducing the isolated area deduction (precursor to the ZTO), then-Treasurer Ben Chifley MP (1945b, 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'.

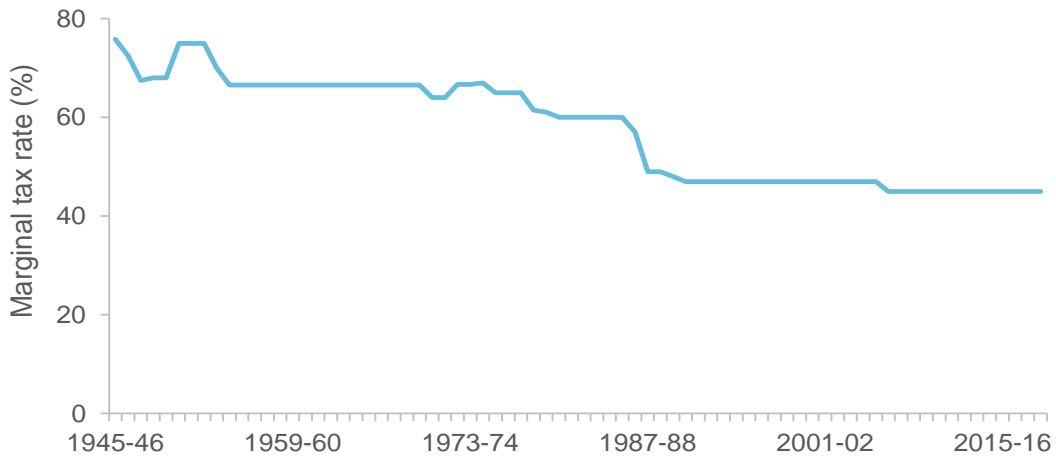
Do these aspects of the tax system justify the ZTO?

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 for similar measures in contemporary Australia, for various reasons.

1. 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 providing infrastructure and services, as well as targeted support measures, in those areas (chapter 3).
2. There is no economic case for providing tax breaks to people in an area based on the *aggregate* production or income earned there. The fact that an area is a source of disproportionately high output (such as mining) is no more reason to provide it with a tax concession than the fact that some individuals earn disproportionately high incomes, or some businesses enjoy disproportionately high profits, are reasons to provide them with tax concessions.
3. If the high cost of living in remote Australia were to be accepted as a sufficient justification for providing a tax concession on equity grounds, this logic would also apply to expensive urban areas like inner Sydney. A policy attempting to equalise the ‘real’ tax paid, especially if it were to be applied consistently, would introduce a sizeable degree of complexity to the taxation system.
4. Just as employers often compensate workers in remote areas for higher living costs, so wages and conditions would be expected to adjust to compensate workers, where necessary, for other difficulties of life in remote Australia — including higher ‘real’ taxation in remote areas or any relative lack of access to government services.
5. Identifying and then correcting any labour market distortion caused by higher ‘real’ taxation through a ZTO would present practical implementation challenges and require extensive information to administer, yet there is little to suggest that any distortion has a high efficiency cost. While in 1945 the top marginal tax rate was high, today the top rate is far lower (figure 5.1).

Figure 5.1 **Highest marginal income tax rate^a**

1945-46 to 2018-19



^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, Individuals snapshot table 1*).

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 through the tax system. Australians face a range of advantages and disadvantages in where they live, and can typically decide to live in the area they value most highly.

The economic development of a particular region succeeds or otherwise based on that region's advantages and disadvantages, as well as its vulnerability to economic shocks. Attempts by governments to create an artificial advantage for a remote community, or to attract people to live in high cost areas through tax concessions, are unlikely to be effective and typically result in net losses to the broader Australian community.

Abolishing the ZTO

In sum, the Commission considers that there is no compelling, contemporary justification for that ZTO and, on this basis, it should be abolished.

What would be the impacts of repeal?

Chapter 4 established that the current ZTO is likely to have a minimal effect on decisions to move to or seek work within the zones. Its repeal should also, therefore, have a minimal effect. Although there is scope for asymmetric effects — abolishing the ZTO 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 already-high level of (internal) migration to and from remote areas (chapter 2).

Submissions following the draft report drew attention to the local impacts of abolishing the ZTO. For example, Adam Woodhouse (sub. DR101, p. 1) noted that:

The vast majority of these small [ZTO] refunds are spent in the local community either updating white goods, furniture or lifestyle assets. Taking this away will have a large ‘localised’ flow on effect.

The Queensland Government (sub. DR197) observed that abolishing the ZTO would impact the three largest Queensland cities in the zones (Townsville, Cairns and Mackay) to the tune of \$20 million a year. This estimate is equivalent to less than 0.1 per cent of annual economic activity (gross regional product) in these three cities and their immediate regions (Cairns Regional Council 2018; Mackay Regional Council 2016; Townsville City Council 2016). It is not credible to suggest that an annual tax offset of \$57 is all that lies between success and ruin for these cities.

In those areas where the rebate is more significant, wages may adjust (at least partially) in response to the change; this would limit the direct impacts of the change, although it could potentially increase employment costs and slightly reduce employment. This would be most likely in places where the ZTO forms a larger share of income and is thus more salient in decision-making.

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 more than 3 per cent of their after-tax income. Moreover, 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. 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.

For most claimants, abolishing the ZTO would have small impacts. Among taxpayers in ordinary Zone B (who represent about 60 per cent of claimants), the average loss of \$133⁵³ each year — about \$2.50 a week — would be absorbed with little discernible impact.

Overseas forces tax offset

Repealing the ZTO would also bear on 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,⁵⁴ and the second to civilians

⁵³ Although the ordinary Zone B rebate is \$57 a year, the average offset claimed by those residents is \$133 because of dependant loadings (chapter 4; table 4.3).

⁵⁴ *Income Tax Assessment Act 1936* (Cth), s. 79B. First provided in 1947.

(primarily members of the Australian Federal Police) serving with an armed force under the control of the United Nations.⁵⁵

The OFTO is provided at the same rate as the ordinary Zone A ZTO, 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, fewer than 50 defence employees claim the OFTO (Department of Defence, sub. DR196).⁵⁶ Most Defence employees posted overseas are exempt from income tax under either s. 23AD or s. 23AG of the *Income Tax Assessment Act 1936* (Cth).

As with the ZTO, there is not a good case for retaining the OFTO. 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; like the ZTO, it should be abolished. Defence employees should be compensated directly through normal remuneration arrangements, not the tax system.

Other matters

As discussed in chapter 4, the notional rebates used to calculate dependant loadings for ZTO and OFTO recipients are not directly claimable by taxpayers, and are only applied in the calculation of dependant loadings for the ZTO and the OFTO.⁵⁷ 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 ZTO zones. Similarly, chapter 8 recommends an approach to assessing eligibility for the FBT remote area concessions that would remove references to the ZTO zones.

⁵⁵ *Income Tax Assessment Act 1936* (Cth), s. 23AB. First provided in 1964.

⁵⁶ There are about 664 ADF employees in eligible conflicts, compared with 1740 in conflicts that are eligible for an income tax exemption under either s. 23AD (*Income Tax Assessment (1936 Act) Regulation 2015* (Cth)) or s. 23AG (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).

⁵⁷ Division 961 of the *Income Tax Assessment Act 1997* (Cth).

Repealing the ZTO would put to bed the risk that the offset may be invalid under the Australian Constitution, and the \$153 million a year saved could be spent elsewhere or used to fund other tax cuts.

5.2 If the ZTO were retained, what form should it take?

The Commission's view is that the ZTO lacks a compelling or contemporary policy rationale and should therefore be abolished. In reaching this conclusion, the Commission has applied an 'economy-wide' assessment framework that takes into account not only the effects of policy measures on the recipients or beneficiaries but also the costs to other members of society (chapter 1).

However, regional policy is not always made with reference to these broader considerations (Collits 2012). The terms of reference ask the Commission to determine what an appropriate ongoing form and function of the ZTO might be — a Gordian knot, given that the Commission considers that the ZTO lacks a compelling or contemporary policy rationale.

In this section, the Commission considers how the ZTO could be reconditioned, if it were to be retained.

Purpose of an ongoing ZTO

If retained, the ZTO should remain a minimalist financial support measure for taxpayers in isolated areas, designed to partly assist them with the difficulties of life in those areas, and implemented in such a way as to reduce its adverse impacts.

Governments should not give oxygen to the notion that the ZTO is a suitable measure to attract population, encourage decentralisation, or pursue any other regional (or remote) economic development objectives. As discussed above, a tax concession would likely be both ineffective and hugely costly at pursuing this objective. Interventions in support of regional economic development may be worthwhile in some cases, but there are generally better measures available, and many are already in place (as discussed in section 5.4).

Eligibility for the concession must be better targeted

As discussed in chapter 4, the existing zone boundaries are outdated and the zones are not aligned to the ZTO's stated policy objective. Growth in some regional cities means that their residents can no longer be considered isolated. Moreover, in many areas now eligible for the ZTO, costs of living are lower than (or not significantly different from) living costs in the relevant State capital. Change in other areas has led to anomalies along the zone borders.

Any tax offset should only be available to residents of *very remote* 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.⁵⁸ Many suggested that the cities in the zones (Townsville, Cairns, Darwin and Mackay) should be carved out — although this was opposed by some residents of those cities.⁵⁹

Substantial change is needed. 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.⁶⁰

These seemingly-arbitrary boundaries reflect the realities of policymaking in the 1940s; indeed, the lack of a scientific basis for the zone boundaries was later lamented (Fadden 1956). But today, there are more rigorous tools available to define remoteness, and the zone boundaries could easily be updated accordingly.

One approach is to base eligibility on the ABS remoteness areas, as proposed by Manning (2013) and supported by multiple submissions to this study.⁶¹ Doing so would better align with the ZTO’s current policy rationale.

- The Commission has found that the cost of living is (on average) higher in *remote* areas than in most capital cities — and higher still in *very remote* areas (chapter 2, appendix B).
 - By contrast, no such cost of living difference exists between the current (ordinary) Zone B and the capital cities, nor for *outer regional* or *inner regional* areas more generally.
- As the ABS classifications are defined by road distance to population centres of particular sizes, they serve as a reasonable proxy for the physical isolation of particular areas.

The ABS classifications are widely used, including by State and Territory governments and the Commonwealth Grants Commission (chapter 3). The remoteness areas are updated after each census using a transparent and well-understood methodology. These updates provide a systematic basis for ensuring that the boundaries do not become outdated.

⁵⁸ For example, 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).

⁵⁹ CQUniversity, sub. DR109; John McClement, sub. DR111; Northern Territory Government, sub. DR119; Joanne Cork, sub. DR139; D Squid, sub. DR142; Leader of the Opposition, Northern Territory, sub. DR148; CAANZ, sub. DR167; PVW Partners, sub. DR169.

⁶⁰ Schedule 2 of the *Income Tax Assessment Act 1936* (Cth).

⁶¹ 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; Ernst & Young, sub. DR112; Peter Fitchat, sub. DR150; Kimberley Regional Group, sub. DR158; City of Karratha, sub. DR166; Shire of Broome, sub. DR176; LGAQ, sub. DR182; Isaac Regional Council, sub. DR184.

No boundary can be perfect, and the ABS remoteness areas are not flawless. The categories were designed to process and present data (such as the relative costs of service delivery) on a geographical basis, rather than to assess eligibility for government policies.

- Remoteness areas create very granular boundaries, and the line between a *remote* or *very remote* area and the rest of Australia is not always clearly linked to noticeable differences in circumstances.
 - The Northern Territory Government (sub. DR 199, p. 8) emphasised the difference in circumstances *within* classifications, arguing that ‘Darwin cannot be compared — in economic or social contexts — with Cairns or Townsville’.
- Some towns classified as *outer regional* areas are ensconced within *very remote* areas, creating ‘hard borders’ on their edges (as in Kalgoorlie-Boulder). Others are internally divided — Bourke is classified as a *remote* area, but the few residents of North Bourke (7 km along the road, across the Darling River) reside in a *very remote* area.
- Remoteness areas can also divide local government areas, Indigenous councils and other administrative units (NATSIHA, sub. DR137).

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. Although it delineates more categories within *inner* and *outer regional* areas, its definitions of *remote* and *very remote* areas are very similar (although offshore islands are treated slightly differently). 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 they generally assess areas’ climates, population density and access to transport. In general, these calculations are done only for towns where governments employ staff. It would be onerous (and less methodical) to adopt this approach more widely, as it could introduce arbitrary boundaries and a greater need for ‘judgment calls’.

Overall, the Commission considers that the ABS remoteness areas provides a suitable basis for defining zone boundaries. Within this classification, an offset could be made available to both *remote* and *very remote* areas, or to *very remote* areas only. Either option would exclude many areas that are no longer isolated.

Including *remote* areas in the concession would materially expand eligibility for the measure (chapter 4, figure 4.9). Moreover, although there are living cost pressures inherent to remoteness, their impact is most pronounced in *very remote* areas. Further, *remote* areas include larger towns such as Port Hedland and Katherine, which have airports, hospitals, schools, and a diversity of retail and other services. While still remote, residents of these areas have considerably better access to these services than many places in *very remote* areas, which may be hundreds of kilometres from the nearest hospital, high school, or airport offering regular air services.

There is clearer evidence of the difficulty of living in *very remote* areas. Not only is the cost of living clearly higher than in the rest of Australia (appendix B) and access to services most difficult, but the barriers to mobility are most acute (due not least to the sheer distances involved).

If the ZTO were to be retained, a practical approach would be to limit it to *very remote* areas only. This would at least make its eligibility criteria more compatible with its claimed objectives, a good design principle for any program.

Administering the boundaries

It should remain the case that, for a taxpayer to be eligible, their usual place of residence should be within the prescribed area and they should spend at least half the year in that area. In administering the offset, the ATO could assess eligibility using postcode correspondences, and provide a simple online map to help taxpayers assess their own eligibility. The Commissioner of Taxation should retain the limited power to address minor boundary issues — but this should not extend to including entire towns or regions that are not classified as *very remote* areas.

The boundaries should be reviewed to ensure that they do not again become outdated in light of social, economic and demographic trends in remote Australia. With the boundaries according with ABS *very remote* areas, eligibility could be automatically updated following each census and the publication of new remoteness areas every five years.

The ATO could publish a tool on its website that identifies which areas will be included and excluded following each update to the remoteness areas.

The costs of income-testing the offset are likely to outweigh the benefits

Some submissions to this study proposed that any future ZTO should only be made available to lower income earners, as they (in principle) have the fewest resources to overcome the disadvantages of life in remote areas (WALGA, sub. DR124; Government of Western Australia, sub. DR145; Uniting Care Queensland, sub. DR180; Queensland Government, sub. DR197). This would limit access for higher income earners and reduce the ongoing cost of the concession.

If the objective of income-testing was to prevent ‘double compensating’ workers who are earning wage premiums, it would be an imperfect means of identifying which employees earn those premiums.⁶² It would also introduce further complexity to the income tax system — and, depending on how access to the offset was withdrawn for higher income earners, it might increase the effective marginal tax rates faced by taxpayers. Other participants

⁶² These wage premiums exist where employees earn higher wages compared with workers in the same occupation in non-remote areas, not compared with other remote area workers in different occupations.

opposed income-testing, on the basis that it would impede the ability of frontline service providers to attract skilled employees on higher incomes (Burke Shire Council, sub. 42).

On balance, there is little merit in income-testing the ZTO. For a relatively minor concession, the value in tightly defining eligibility on the basis of income does not appear to outweigh the greater complexity that it would introduce.

The offset should be streamlined, but not increased

Many submissions to this study strongly advocated for the ZTO to be increased — but they often did so with the aim of making it large enough to encourage individuals to relocate to remote Australia. As established above, attempting to do so would be very costly for limited (if any) effect. Moreover, the Commission does not accept population attraction as a valid purpose for the ZTO. Ultimately, it would just redistribute population around Australia, but with the additional cost of the offset (and the associated taxation) borne by the Australian community.

If the ZTO were retained, setting the offset rate would be a matter of judgment. On the one hand, the rate should remain small enough to not distort decision making so that it does not discourage mobility. On the other hand, it should be significant enough for the ZTO to be meaningful to its recipients. (Some of these issues are similar to those considered when setting the rate of the RAA (chapter 6).)

In the Commission’s view, if the ZTO were retained, it should be provided as a fixed offset at the current special area rate (\$1173 a year). In moving to the special area rate, there would be no need to increase the ZTO; about half of those accessing the reconditioned ZTO would receive a higher offset than under the existing ZTO.

Additional concessions for dependants should be simplified — if not abolished

The concession should be streamlined further by abolishing the current complex system of dependant rebates. The dependant loadings available for ZTO claimants (chapter 4) are an artefact of history, created when social assistance was largely provided through the tax system — prior to parenting payments becoming available as part of the social security system in 1994. Today, the dependant rebates remain an unnecessarily complex part of the tax system. As support for maintaining dependants is provided through family tax benefit (FTB) payments, there is not a strong case for retaining additional ZTO rebates for dependants. Removing these rebates would simplify the tax legislation, and also streamline self-assessment of an updated ZTO.⁶³

If dependant rebates were to be retained, they should be simplified considerably. The existing ‘notional rebates’ should still be abolished, with the dependant loading replaced

⁶³ If the OFTO were to be retained, an identical approach should be adopted for dependant offsets.

with a fixed additional offset for every FTB-eligible dependant — in line with the dependant payments available for RAA recipients. Doing so would simplify calculation of the offset, allow the ‘notional’ rebates to be repealed from tax legislation, and make the offset consistent with both the RAA and FTB.

What would the impact be?

A ZTO only for *very remote* areas, provided at the special area rate, would reduce the number of concession rates from three to one and trim the number of income taxpayers eligible for the offset to 60 000 (down from 480 000 who claimed the ZTO in 2016-17).

It would exclude some areas that are currently eligible, including:

- regional cities (Townsville, Cairns, Darwin and Mackay)
- larger towns and regional centres, including Bourke and Broken Hill (New South Wales), Kalgoorlie-Boulder and Kambalda West (Western Australia), Mount Isa (Queensland), and Alice Springs and Katherine (Northern Territory)
- western Tasmania, parts of western New South Wales, and areas of the Northern Territory (including between Darwin and Katherine).

The ZTO would remain available in areas currently home to large numbers of special area claimants (such as King Island and Weipa), which would mitigate any local flow-on impacts in those communities. A small number of new communities would become eligible, including Ceduna (South Australia) and Mitchell (Queensland). The ZTO would become available to about 6000 new taxpayers.

Moving to a single payment at the special area rate would represent an increase in the value of the offset for many recipients, but with fewer taxpayers eligible for the offset overall the annual budget cost of the revised ZTO would be reduced by half to about \$70 million.

As with abolishing the ZTO, the impacts of reconditioning the ZTO would not warrant compensation or transitional arrangements beyond pre-announcing the change.

RECOMMENDATION 5.1 ABOLISH THE ZONE AND OVERSEAS FORCES TAX OFFSETS

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

If the ZTO is retained, the Australian Government should recondition the offset by making it:

- available to residents of *very remote* areas only, as defined by the Australian Bureau of Statistics, with the eligible area updated after each census
- a flat rate at the existing special area rate of \$1173 a year.

5.3 Tax concessions for businesses in remote areas

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

Place-based business tax concessions are often advocated for on similar grounds to the ZTO. These policies generally aim to encourage businesses to relocate to particular areas (to support regional development and employment), or to function as generally-available subsidies for businesses in those areas. A number of participants in this study supported such concessions for remote businesses (box 5.5).

By reducing taxes, these policies reduce the cost of doing business in particular areas. 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.

Box 5.5 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 of Western Australia (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.

Kimberley Regional Group (sub. DR158) and the Shire of Broome (sub. DR176) each argued for 'strategic' application of concessions to assist remote businesses during the start-up phase. 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.

By contrast, Ernst and Young (sub. DR112) did not support company tax concessions, noting that they would add complexity to the tax system.

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 examples in Australia where governments have previously 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).

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 Akinci 2011), this evidence comes largely from developing countries, and relates to 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 to overcome a ‘first-mover disadvantage’.

However, 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 Akinci 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 create inequities and reduce 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 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, place-based tax concessions 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, and add 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 they could breach other obligations — for example, 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).

Taking these arguments together, there is no credible case for the Australian Government to provide company tax offsets specifically to businesses in remote areas. Consistent with its

previous work,⁶⁴ the Commission’s view is that there are more effective (and less distortionary) 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 alternatives are considered in section 5.4.

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 through targeted government measures, rather than a general tax concession.

FINDING 5.2

There is no case for the Australian Government to provide company tax offsets specifically to businesses in remote areas. Governments should focus on creating an environment for businesses to succeed without regard to location.

5.4 Alternative mechanisms to support regional and remote Australia

The terms of reference for this study direct the Commission to consider if there are alternative mechanisms to better support residents of specified geographic areas. This section discusses options that governments could consider.

Chapter 3 outlined a range of measures that currently support individuals, businesses and communities in regional and remote Australia. Some of these — such as assistance to primary industry and regional development grants — are primarily focused on regional economic development, while others — such as providing distance education through the internet — also serve the purpose of supporting the wellbeing of individuals and households.

In addition to the measures in chapter 3, study participants proposed additional measures that could be considered for different purposes (box 5.6).

⁶⁴ For example, *Transitioning Regional Economies* (PC 2017d).

Box 5.6 Participant views on alternative mechanisms

Improving access to essential services was seen by many stakeholders as a fitting use of the additional revenue from abolishing the ZTO. Antony Holden (sub. DR100, p. 3) viewed that any savings:

... should be funnelled back into services that do support those places – country hospitals, country schools and services such as Flying Doctor should receive greater assistance – these services are needed to save country lives and these should be considered as equally important as their city counterparts.

Some participants supported measures that would assist local governments in remote areas to provide services (WALGA, sub. DR124). Others — including the Northern Territory Government (sub. DR119) and the Torres Shire Council (sub. DR189) — proposed that the money be used to support economic development, such as by constructing infrastructure in regional or remote areas.

And some participants suggested alternative ways in which the tax system could be utilised to encourage people or businesses to move to particular areas.

- BDO Australia (sub. DR141) proposed exempting individuals from the luxury car tax or providing HECS relief for younger professionals who live and work in regional centres.
- RDA Orana (sub. DR181) suggested that tax incentives be made available to recognise the higher cost of staff training in remote areas.
- The East Kimberley Chamber of Commerce and Industry (sub. DR190) suggested that payroll tax concessions could be made available to businesses that employ locally, or HELP debts could be waived for skilled employees that relocate to regions.

Whether, and in what form, governments provide support for residents of regional and remote areas will depend on each government's priorities, as well as an assessment of the relative effectiveness of different measures. In general, fiscal policy is developed as part of the overall budget process, and any new policies (including particular tax reductions or expenditures) are compared against other budget priorities.

The Commission has not sought to endorse any specific alternative use for the tax revenue gained by abolishing or reconditioning the ZTO (or from tightening the FBT remote area concessions; see chapter 8). However, abolishing the ZTO would increase *Australian* Government revenue, while many alternative measures to support regional Australia fall under the purview of *State, Territory* and *local* governments.

Should there be an imperative to redirect that revenue back to affected areas, the Australian Government should consider how funding could be reallocated between governments on a case-by-case basis. For example, the Commission has found that general revenue assistance to the States and Territories would be the most effective way to adjust the funding of service delivery agencies (chapter 8).

The Commission discusses some other measures governments could consider to support the wellbeing of people in regional and remote areas below. It then addresses whether further specific measures to support regional or remote economic development are warranted.

Measures to support the wellbeing of residents

Many government programs already look to address differences in costs of, or access to, services or infrastructure between different parts of Australia (chapter 3). These programs and policies cover health, education, public safety, telecommunications and transport, among others. Many of them are implemented by State and Territory governments, while some are funded or implemented by the Australian Government.

Remote service delivery

Submissions to this study have highlighted a number of areas where, in the participant's view, governments are falling short on the ambition to provide equitable access to services. For example, many participants submitted that access to healthcare, and particularly to medical specialists, is poor in remote areas (chapter 2).

Some participants pointed to shortcomings in State-based patient travel assistance schemes (discussed in chapter 3; box 3.5) and argued that the schemes did not cover the full costs of travel (Lisa Thompson, sub. 9; Janice Baird, sub. DR103). RDA Orana (sub. DR181) suggested that governments could consider expanding their patient travel assistance schemes to cover more of the cost of accessing services for residents of remote areas.

The Isolated Children's Parents' Association of Australia (sub. 74; sub. DR134) also pointed to the higher costs of accessing education in remote areas through the School of the Air or other distance education schemes. The Association further observed that access to the internet and telecommunications is costly and unreliable, and that the use of many services (including education) now requires internet access. Reducing the cost of distance education and improving access to telecommunications could help support residents in remote areas.

More broadly, effective service delivery in remote Australia is a complex topic that goes beyond the scope of this study. The Queensland Productivity Commission's inquiry into *Service delivery in Queensland's remote and discrete Indigenous Communities* (2017), the Productivity Commission's own inquiry into provision of human services (2017a) and its ongoing study into child and family services in the Northern Territory (2019b) provide more guidance, emphasising the importance of local involvement and place-based solutions to address service coordination failures.

Worker shortages

Many frontline service delivery agencies (including police, education providers and healthcare providers) highlighted the difficulty of attracting and retaining suitably qualified staff in remote (and regional) Australia.⁶⁵ Worker shortages increase the cost of delivering services in particular areas, and have flow-on effects on service quality. For example, high

⁶⁵ QCEC, sub. DR117; Royal Flying Doctor Service QLD, sub. DR125; NTPA, sub. DR129; PFA, sub. DR175; SAPOL, sub. DR192.

turnover among frontline medical staff can undermine continuity of care for patients with complex or chronic health conditions.

The Australian, State, Territory and local governments face ongoing challenges in fulfilling their need to attract and retain staff in remote areas. They offer higher wages or other incentives (such as accelerated career advancement) to attract or retain staff in particular areas, and consider alternative forms of service delivery (such as tele-health; chapter 2) to bypass those difficulties.⁶⁶

That said, worker shortages exist across Australia and are not limited to regional or remote areas. In these cases, a holistic response is to improve the national education and training system so the skills base of the Australian workforce better matches demand.

There can also be a role for skilled migrants. Chapter 3 described Designated Area Migration Agreements (DAMAs), which allow employers in designated regions to sponsor skilled workers for occupations that are not specified in standard visa categories. DAMAs already cover the Northern Territory, the Great South Coast region of Victoria, South Australia, the Goldfields in Western Australia, Orana in New South Wales, and Far North Queensland. They could be made available more broadly if they were found to be effective in alleviating specific regional labour shortages.

Likewise, the Australian Government is also now providing two new visas for skilled workers in ‘regional Australia’ — which, for this purpose, is defined as anywhere except Sydney, Melbourne and Brisbane (DHA 2019b). The visas commit migrants to at least three years of work in the regions and, compared with other skilled visa categories, have fewer restrictions on eligible occupations and provide an easier transition to permanent residency.

The degree to which these visas have substantial long-run effects on regional labour shortages depends on the subsequent movement of workers. Historical evidence suggests that many migrants who initially reside in a regional area subsequently move to Australia’s largest cities, though the extent to which this occurs varies by the nationality of the immigrant and by region (Raymer and Baffour 2018).

Local government revenue-raising capacity

Remote local governments service large and sparsely-populated areas. As highlighted by study participants,⁶⁷ and by the Commission in previous analyses (PC 2008, 2017b), many local governments do not have enough ratepayers to raise sufficient revenue to fund basic activities in support of their communities.

⁶⁶ Chapter 8 further outlines some of these difficulties, and considers how to address the impact of the Commission’s recommended changes to fringe benefits tax (FBT) on regional and remote service providers.

⁶⁷ WALGA, sub. 79 & sub. DR124; GVROC, sub. DR113; Town of Port Hedland, Shire of East Pilbara, Shire of Ashburton, sub. DR170; Shire of Broome, sub. DR176; LGAQ, sub. DR182; Isaac Regional Council, sub. DR184.

Consequently, these local governments rely on grants from the Australian, State and Territory governments. There is some concern that the Australian Government's general purpose grants are insufficient to achieve full horizontal equalisation between local governments, and that providing minimum grants to the most well-off local governments leads to shortfalls in funding for remote local governments (PC 2008, 2017b).

It is beyond this report's scope to assess the overall adequacy of the general purpose grants provided to local governments, or the legitimacy of minimum grant amounts. However, as flagged in chapter 3 (box 3.4), the Commission's view remains that the differing capacities of local governments to raise revenue should be recognised, and that there is still a case to review the provision of those grants (PC 2008, 2017b).

Regional and remote economic development

As discussed above, the Commission has previously analysed the role of government in promoting economic development in particular areas (box 5.4). The issue of regional development involves complexities beyond the scope of this study. There have been many examples of parlous and ineffective programs. While these examples are not reason to reject regional development policy per se, they provide reason for caution and furnish some 'do not do' imperatives, such as politically-motivated grants that do not draw on any natural advantages of an area.

A mixed legacy

Governments in Australia have a long history of regional development programs (sometimes intertwined with industry or structural adjustment policies). Those experiences have demonstrated that there are no simple ways of effectively spurring economic growth in certain areas (PC 2017d, 2019d). Very few measures have proven to be effective, and many have proven to be costly and inefficient.

In general, attempts by governments to create a sustainable advantage for a community that it does not already possess, or to simply divert economic activity from one place to another (such as through decentralisation policies), impose economy-wide net costs that outweigh any local benefits (Daley et al. 2019; PC 2017d). For example, analysis of the decision to relocate the Australian Pesticides and Veterinarian Medicines Authority (APVMA) from Canberra to Armidale in 2017 found that it would impose a net economic cost on the Australian community (Ernst & Young 2016) and risk reducing the capacity of the APVMA to test and approve pesticides and medicines demanded by the agricultural sector (a major concern raised in the Commission's inquiry into the *Regulation of Australian Agriculture* (PC 2016)).

As the Commission has previously observed, governments of all levels have had limited success when financing 'catalytic' public investments in the hope of generating sustained economic activity in a particular place. Very few of these measures can be economically

justified (where the benefits exceed the costs on an economy-wide basis), and there has been a long legacy of ‘white elephants’ (Daley 2012; PC 2017d). In some cases, project selection may be affected by undue political interference (ANAO 2019). Programs with unclear or conflicting objectives — for instance, those conflating service delivery objectives with economic development — have also had limited effectiveness (Daley 2012).

Moreover, centralised decision making has a poor track record of spurring successful regional economic development, both in Australia and overseas (Ketels 2013; Rodríguez-Pose 2018). The diversity of regional areas, the issues they face, and their different strengths and weaknesses all mean that there are few one-size-fits-all solutions (Iammarino, Rodríguez-Pose and Storper 2017). Policy development needs to acknowledge that local communities frequently have a superior capacity to identify their goals, issues and solutions than higher levels of government, though not necessarily the funds or collective information to make the best investments.

This implies a role for State, Territory and local governments to lead regional development initiatives, as those governments are likely to be the stakeholders with the greatest access to local information, the ability to trade off alternative investments, and the best incentives to make good decisions. The Australian Government can play a role in the limited circumstances where a national approach is required and where cross-jurisdictional coordination is helpful.

However, even where more locally-targeted initiatives have been pursued, governments have not yet mastered these approaches. As previously highlighted by the Commission:

... there is inadequate collaboration and coordination between the many parties involved; indeed the lack of collaboration and coordination has often been deliberate. There is also insufficient focus on regional priorities, a lack of capacity and expertise within councils, inadequate data to support strategic planning and failures to identify significant regional issues. This has exacerbated the problems of inadequate targeting and selection of regional investments ... (PC 2017d, p. 153)

No straight-forward solutions

Although there is much evidence of what doesn’t work in supporting regional economic development, there is no consensus on what does work.⁶⁸ Overseas, regional development policies have gradually retreated from large top-down investments towards more collaborative approaches, looking to enhance existing industry ‘clusters’ and support innovation in areas outside of large cities. These clusters are based around particular industries and tend to emerge organically (rather than being driven by government) in response to opportunities created by technological, social and economic change.

⁶⁸ This subsection draws on: the international work of the OECD (2007), Ketels (2013), Rodríguez-Pose (2018) and Iammarino, Rodríguez-Pose and Storper (2017); Australian research (Collits 2012; Daley 2012); and, the Commission’s prior research, as discussed above.

With this in mind, one view is that higher-level governments should look mainly to help regions harness their existing capability and locational advantages — rather than trying to relocate economic activity around the country. An assessment of a region’s advantages and potential for growth and innovation is a necessary first step, and this should be followed by regional strategic planning.

Any policy measures must then be aimed at addressing specific barriers, institutional flaws or market failures at local levels in line with that plan. should be made as close to the ground as possible, in line with local priorities. There must be clear governance arrangements, the development of an overall vision, and a coherent and consistent policy mix and delivery plan. And where governments implement other (non-regional) policies, they should consider how those policies may affect particular areas differently.⁶⁹

Specific policy measures need to be targeted to particular regions, but may include:

- measures that develop local leadership or local government capacity, including regional planning and realistic assessments of scope for economic development
- constructing transport infrastructure to better connect regional industries with a domestic or international market, or to overcome bottlenecks
- Indigenous economic development policies in remote areas, identifying and addressing place-specific barriers to economic participation and business development, including constrained access to finance or lack of local human capital (QPC 2017).

While such a bottom-up approach is more likely to support sustained economic development, success is not guaranteed. Governments need to ensure stability and consistency in their approaches to avoid wasteful measures and duplication, and to provide certainty for communities and investors.

As with any policy measures, good public policy principles should be applied to regional economic development policy. These include that:

- measures have a clear rationale and should not pursue conflicting objectives
- measures provide a net benefit on a community-wide basis
- measures be designed and implemented independent of political interference
- there be transparent monitoring and evaluation to ensure that programs are delivering on their stated policy objectives.

⁶⁹ For example, the FBT remote area concessions (discussed in chapters 7 and 8) are designed to correct an inequity that the FBT imposes on businesses in certain parts of the country.

6 The remote area allowance

Key points

- Introduced in 1984, the remote area allowance (RAA) assists 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. Eligible areas 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 circumstances. 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. Most recipients are located in ABS *very remote* and *remote* areas of Australia, and two thirds are Indigenous Australians.
- The RAA has a legitimate role to compensate for some of the higher costs of living and reduced access to services affecting income support recipients in remote areas. Most recipients are from areas with the greatest socioeconomic disadvantage, and (unlike most ZTO recipients) face barriers to mobility and are unable to benefit from remote area wage premiums.
- RAA boundaries are outdated. The draft report indicated a slight preference for updating RAA boundaries to ABS *remote* and *very remote* areas. After further analysis, the Commission is recommending aligning RAA boundaries to ABS *very remote* areas alone. Relative to people in *remote* areas, people in *very remote* areas face higher living costs, less ready access to services, and greater barriers to mobility. There are also significantly higher levels of socioeconomic disadvantage and lower levels of adaptive capacity in *very remote* areas.
- Aligning RAA boundaries to *very remote* areas would improve the RAA's targeting, decrease the number of recipients (over a year) by 46 000 and, if current rates of payment were maintained, decrease the cost of the RAA by \$18 million a year.
- RAA payment rates have not increased in 20 years and have declined in real value. The Australian Government should initiate a process to set new payment rates for the RAA. The process should consider the RAA's coherence with the broader income support system, minimise disincentives to work or move, and strike an appropriate balance between adequacy of payment rates and the forgone benefits from spending on other priorities.

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 current 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 the 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 and payment rates 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:

... 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 the cost of living in remote areas**

A 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 in 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 assist low-income individuals and families 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).⁷⁰

Eligible income support payments

The RAA is administered by Services Australia⁷¹ (formerly known as 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.⁷² 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 2019d).⁷³

A number of changes to Australia's welfare system are being implemented following the enactment of the *Social Services Legislation Amendment (Welfare Reform) Act 2018* (Cth).⁷⁴ Existing eligibility criteria for the RAA and other supplementary payments will remain unchanged.

⁷⁰ Qualification for the RAA is determined by an income support recipient's residential (not postal) address.

⁷¹ Services Australia is an Executive Agency within the Australian Government Social Services Portfolio.

⁷² 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 DHS) and the service pension, income support supplement and veteran payment (each administered by the Department of Veterans' Affairs) (DHS 2019c).

⁷³ 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).

⁷⁴ 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).⁷⁵ 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 Islands⁷⁶ (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 DHS (now Services Australia) 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/Services Australia system. RAA assessments are a well-established process and manual determinations are minimal (DSS pers. comm., 6 June 2019).

⁷⁵ 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 the Schedule were based on the results of the 1981 ABS Census, found to be further than 250 kilometres by the shortest practicable surface route from the nearest urban centre with a census population of 2500 or more.

⁷⁶ 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 and Norfolk Island.

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 rates across all eligible areas. It is also paid at flat rates 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
- \$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 about \$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 RAA payment during that year (DHS/Services Australia administrative data (unpublished) and DVA administrative data (unpublished)).⁷⁷

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/Services Australia 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/Services Australia administrative data recorded on 28 September 2018 (excepting farm household allowance data, which were recorded on 29 June 2018) and DVA administrative data recorded on 30 September 2018. These point-in-time data recorded around 76 000 people who were in receipt of the RAA.

⁷⁷ This is an approximation only, as there may be instances where a recipient was counted multiple times if they received more than one income support payment type in 2017-18.

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 years⁷⁸) 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.

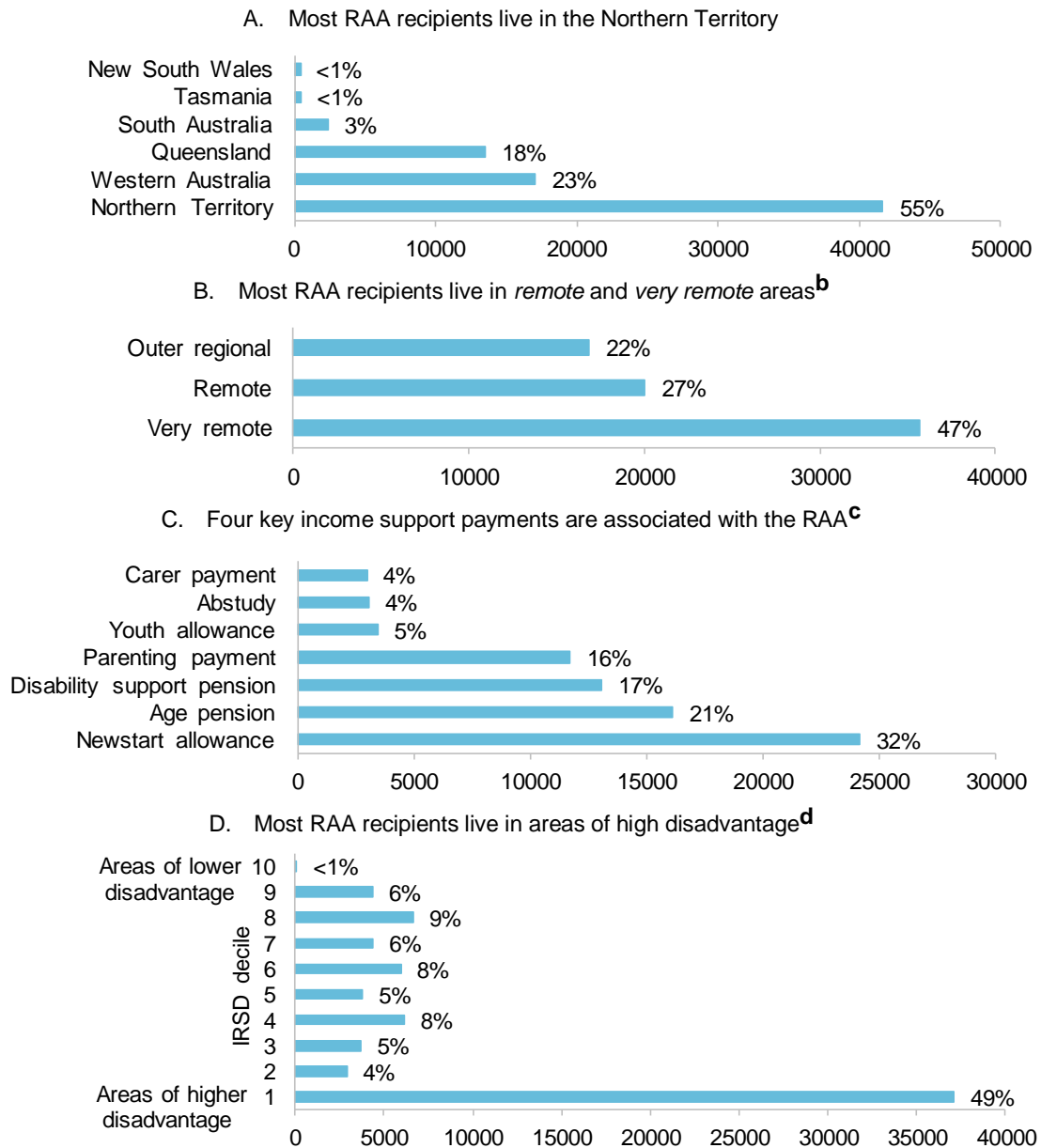
RAA data by postcode provide information on who receives the RAA at a more disaggregated geographic level. Table 6.1 lists the 10 postcode areas where the largest number of RAA recipients reside.⁷⁹ Together, these postcodes account for over half of all RAA recipients. More than 40 per cent of the population in postcode area 0872 receive RAA payments. However, the postcode with the largest share of its 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 areas. However, these limitations do not invalidate the broad story arising from the analysis.

⁷⁸ 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 individuals aged 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. no. 3101.0, September 2018.

⁷⁹ The data allow for indicative geographic analysis only, as the RAA is paid by residential suburb rather than postcode.

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 five 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 1 per cent of total RAA recipients. ^d Based on the ABS Index of Relative Socio-economic Disadvantage (IRSD) by postal area.

Sources: ABS (*Australian Statistical Geography Standard: Volume 5 — Remoteness Structure*, July 2016, Cat. no. 1270.0.55.005); ABS (*Census of Population and Housing, 2016*, Cat. no. 2033.0.55.001); DHS/Services Australia administrative data (unpublished) recorded on 28 September 2018 (with the exception of farm household allowance data which were 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

Postcode	Included areas	Remoteness class ^b	Recipients No.	% of total recipients	% of pop. ^c	IRSD decile ^d
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 Sandover, 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*, July 2016, Cat. no. 1270.0.55.005); ABS (*Census of Population and Housing*, 2016, Cat. no. 2033.0.55.001); DHS/Services Australia administrative data (unpublished) recorded on 28 September 2018 (with the exception of farm household allowance data which were 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 socioeconomic 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.⁸⁰ 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 that:

- 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/Services Australia administrative data (unpublished) and DVA administrative data (unpublished)).

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 socioeconomic disadvantage
- two thirds of recipients are Indigenous Australians
- just over half have been in receipt of an income support payment for over five years.

⁸⁰ 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 the effects of the RAA are likely to be small in aggregate, gauging those effects is not a straightforward process. 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 (2018) 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 [now Services Australia] 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). The City of Karratha commented:

... the RAA has a real and potential meaningful benefit to the most disadvantaged Australians living in remote and regional Australia. At a cost of \$44Mpa, the impact on the Federal Government budget from this scheme is negligible. (sub. DR166, p. 2)

Creating perverse incentives — for example, by effectively paying people not to work — is one possible risk of all welfare measures. The RAA might also encourage some people to move to or remain in high-cost areas. Burke Shire Council commented on this possibility:

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.⁸¹

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 intent 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 terms of reference ask the Commission to assess the RAA as a separate mechanism to the ZTO (despite the historical nexus between the RAA and the ZTO). The ZTO and the RAA differ in that they:

- are aimed at different populations (income tax payers and income support recipients)
- are administered through agencies in different government portfolios (the ATO, and DHS/Services Australia and DVA)
- have different areas of eligibility (although both are based on definitions in the Income Tax Assessment Act)
- have different rates of payment.

Thus, while there is an historical relationship between the ZTO and the RAA, the Commission has assessed the RAA as a separate measure.

Do higher remote living costs justify a 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. The most frequently-cited concerns about living costs in remote Australia relate to food, fuel, freight, air fares, housing and insurance. While the evidence is not definitive, the Commission has found that living costs generally tend to increase with remoteness, with the

⁸¹ 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 2019d).

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).⁸² Likewise, using the ABS remoteness classifications, the Commission has found that there are higher living costs on average in *remote* communities (like Port Hedland and Mount Isa) and especially in *very remote* communities (like Meekatharra and Weipa) than in adjacent *inner* and *outer regional* areas and some 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, and between their recipients, that sway the balance towards retaining a RAA in some form, even if the ZTO is abolished as the Commission recommends (chapter 5).

First, whereas employers can pay wage or in-kind remuneration 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 who, as noted, constitute nearly two thirds of all RAA recipients. For example, between 2011 and 2016, 40 per cent of non-Indigenous Australians living in *very remote* areas moved out of the area that they were initially recorded as living in. But, for Indigenous Australians, mobility was markedly lower (the equivalent figure was 14 per cent). Non-Indigenous migration typically takes place between remote and large urban areas, whereas Indigenous movement is typically over relatively small distances, is overwhelmingly within remote areas, and is largely as a result of familial and cultural ties (chapter 2).
- Census data 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, geographically tying home-owning residents to the area. And RAA recipients with a continuing need for social housing and who wish to relocate to a new area may face the challenge of losing their accommodation and entering the queue in another area (chapter 2). 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

⁸² 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.

Indigenous and non-Indigenous. Change has long been a feature of 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 limited mobility of many RAA recipients, relative to most ZTO beneficiaries, means that the former’s decisions to live in a remote area, and to incur the higher living costs that entails, involves less ‘real’ choice. In turn, this strengthens the case for governments to provide some compensation for those higher living costs.

Broader considerations

In addition to the costs of living, there are other difficulties, tied to distance, that also demarcate the difficulties of life in remote from non-remote Australia. In particular, many study participants pointed to poorer access to services (including education, transport, telecommunications, health and community services). Access to key services is particularly challenging, for reasons of both availability and cost (in money and time), for communities in *very remote* areas that are far from major population centres (chapter 2).

Australia’s system of horizontal fiscal equalisation — which underpins the distribution of GST revenue to State and Territory governments — aims to give each jurisdiction the fiscal capacity to provide a similar level of public services, and notably considers the higher per capita expenditure on service delivery in remote areas (chapter 3). However, 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. And in practice, it is clear that disparities in service accessibility remain (chapter 2).

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)

A unique rationale

The Commission considers that the RAA has a legitimate role — to partly compensate people on income support for disadvantages of living in remote areas. The Commission views higher living costs and less ready access to services as the most relevant factors that distinguish the difficulties of living in parts of remote Australia from those in non-remote Australia.

As noted, unlike for most ZTO recipients, there is no market mechanism to compensate income support recipients in remote areas, who are predominantly outside the workforce, for the disadvantages of living in remote places.

This, together with limits on the mobility of many RAA recipients (relative to ZTO beneficiaries), provides a policy basis for a geographically-based supplementary income support payment like the RAA. Of course, some RAA recipients *would* have the capacity to move, others might face relatively low costs of living due to their preferences, and others might face relatively high costs. There will also be different needs for, and access to, services in different parts of remote Australia. But no social security payment can be finely calibrated to each individual. In the case of the RAA, there are enough people in roughly similar circumstances to justify a supplement. The Commission, however, does not see a broader case for geographically-based income support payments.

FINDING 6.2

The unique conjunction of higher costs of living and less ready access to services, together with the restricted geographic mobility found in parts of remote Australia, provide a justification for the remote area allowance. The Commission does not see a broader case for geographically-based income support payments.

6.5 A refresh of current arrangements is needed

While there is a sound policy basis for maintaining the RAA, remote Australia has changed significantly in the 36 years since it was introduced. RAA boundaries and payment rates now need a refresh.

Assessing RAA boundaries

Although the RAA falls under the income support system, the boundaries defining eligibility are linked to the income taxation system.⁸³ 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 possible anomalies in the boundaries.

- 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 costs 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.⁸⁴
- Study participants (like Burke Shire Council, sub. 42) questioned whether Darwin, which is in Zone A and therefore in-area for the ZTO and RAA, should be excluded from eligibility because it is a capital city.

A number of study participants⁸⁵ suggested that areas of eligibility for the RAA (and the ZTO) should be based on ABS remoteness classifications. The boundary analysis in chapter 5 found that while the ABS remoteness measures are not perfect, this approach is

⁸³ *Income Tax Assessment Act 1936* (Cth), Schedule 2.

⁸⁴ For example: Gail Lane (sub. 5), Saskia Gerhardy (sub. 7) and Lisa Thompson (sub. 9).

⁸⁵ For example: RDA Tasmania (sub. 69, p. 8), CPA Australia (sub. 72), CA ANZ (sub. 73), WALGA (sub. 79), DPIRD WA (sub. 82).

better than the alternatives. Aligning RAA areas with an 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 following new census data.
- It would make the process for determining boundaries more transparent.

Consistent with this view, the Commission also supports aligning RAA areas with ABS classifications of remoteness. Further, during consultations and in submissions following the draft report, the large majority of those study participants who discussed the RAA supported the Commission's draft report recommendation to align RAA boundaries with ABS remoteness areas.

FINDING 6.3 (PART A)

The remote area allowance zones do not reflect contemporary definitions of remoteness. Zone A is largely based on boundaries drawn in 1945, and special areas are based on town sizes as measured in the 1981 census.

Options for aligning the RAA with ABS remoteness areas

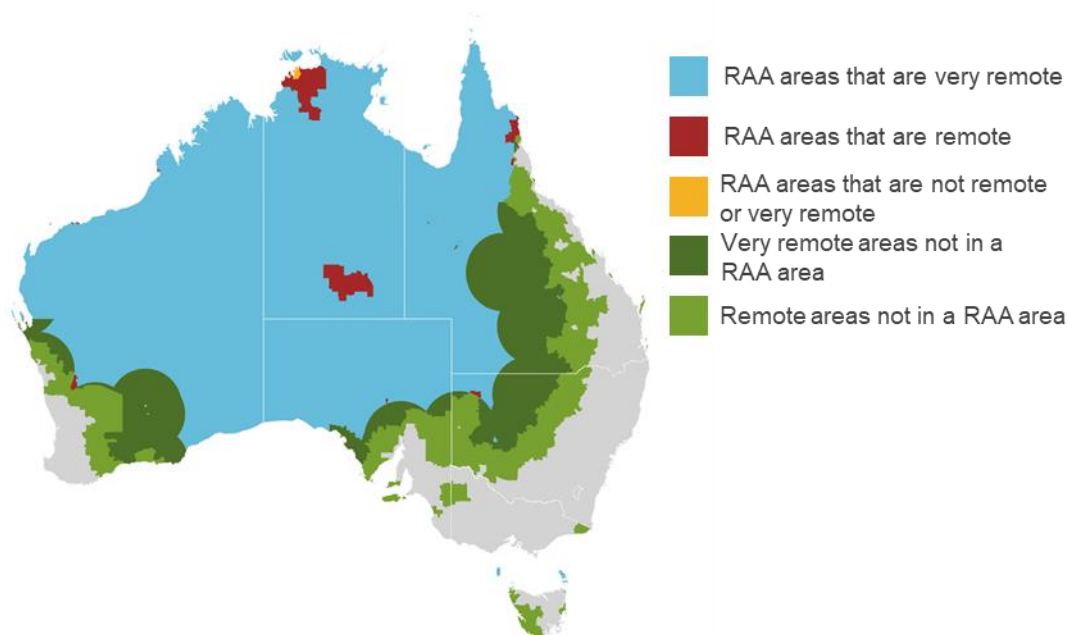
Using the ABS classification, the Commission examined two main options in the draft report: aligning RAA areas with the ABS *remote* and *very remote* areas, or only with the ABS *very remote* area.

To understand how these options would alter the set of people eligible for the RAA, the Commission has mapped five population distributions (based on 2016 census data) (figure 6.3).

The Commission's boundary analysis is based on DSS (2018b) data on income support recipients at Statistical Area Level 2. These areas are generally better for 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 RAA-specific data based on postcode areas in section 6.2.⁸⁶

⁸⁶ The Statistical Area Level 2 income support recipient data used to analyse boundaries here is only an approximation for the number of RAA recipients. The RAA administrative postcode data provided by the DHS/Services Australia and DVA is an exact count of the number of RAA recipients and, for this reason, it was used to investigate the profile of RAA recipients in section 6.2.

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: ABS Australian Statistical Geography Standard (ASGS): Volume 5 — Remoteness Structure, Cat. no. 1270.0.55.005, July 2016; *Income Tax Assessment Act 1936* (Cth), Schedule 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*.

Estimates of the impact of the two 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 annual outlays by \$17 million.

The second 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 Alice Springs (Northern Territory), Karratha (Western Australia), Katherine (Northern Territory), Mt Isa (Queensland), Port Hedland (Western Australia) and Roxby Downs (South Australia). 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 <i>remote</i> and <i>very remote</i> areas	Option 2: Align RAA-eligible areas with ABS <i>very remote</i> 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, calculated 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. Estimates are an approximation only, as there may be instances where a recipient was counted multiple times if they received more than one income support payment type in 2017-18.

Sources: DHS/Services Australia administrative data (unpublished); DSS (2018b); DVA administrative data (unpublished).

The Commission has also considered how well RAA areas correspond to areas of socioeconomic disadvantage, as measured by the ABS 2016 IRSD. The Commission estimates that a disproportionately high number (about 20 per cent) of the half-a-million people living in RAA areas live in decile 1, the decile of highest socioeconomic disadvantage (figure 6.4, panel A).

While most participants supported changing to ABS *remote* and *very remote* areas, some expressed concern that doing so would exclude income support recipients in Darwin from eligibility for the RAA. However, as explained in box 6.2, the Commission considers that including Darwin in the RAA boundaries would dilute the measure's effectiveness at addressing the difficulties of living in remote Australia. Overall, the Commission does not see a strong case for retaining Darwin as a RAA-eligible area.

Box 6.2 **Should Darwin be eligible for the RAA?**

Some participants expressed concern that the Commission's draft recommendation to align RAA boundaries with the ABS *remote* and *very remote* areas would exclude Darwin, which is an *outer regional* area. The Northern Territory Government said:

The Territory largely supports the Draft Report findings and recommendations pertaining to the RAA with the exception of the PC's view to substantially reducing the geographic scope of eligibility.

Redrawing the currently outdated RAA geographical boundaries in line with the ABS' Remoteness Areas categories is a reasonable approach. However, individuals in 'Outer Regional' areas should continue to be in scope for the RAA. This is consistent with the Territory's position regarding revising the geographical boundaries of eligibility for an updated ZTO. (sub. DR119, p. 6)

Similarly, the leader of the Opposition in the Northern Territory commented:

The Territory Opposition welcome the fact that the PC finding that the RAA has a legitimate role in helping income support recipients meet some of the higher costs associated with living in remote areas. Unlike most ZTO recipients, RAA recipients face barriers to mobility and do not benefit from remote area wage premiums. However, the Territory Opposition, as with the ZTO above, does not support any reclassification of Darwin as 'not remote'. The challenges present in Darwin today are real, persistent and expensive when compared with other areas of Australia. (sub. DR148, p. 2)

And Joanne Cork (sub. DR139, p. 1) submitted that:

[To] suggest that places such as Darwin are no longer isolated is surely just un true. Only [a] suggestion like this would come from people who have never experienced the cost and challenges the distance brings including:

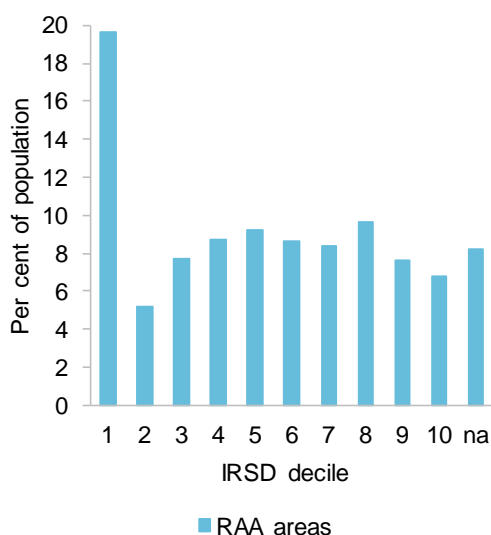
- Unreliability flight cost
- Unreliability of freight / and it's cost
- Lengthy delivery times of goods
- Poor quality of fresh produce
- Very limited options to travel interstate
- Expensive cost for insurance for cars and house
- Very lengthy driving times to other capital cities
- Isolation from family
- Lack of understanding and support from the people of the large cities in Australia, most of whom live radically different lives with very limited understanding of what is like to live outside a city.

Chapter 2 discusses how the broader context for remote area tax concessions and payments has changed considerably over time. Today, some areas once considered isolated, like Darwin, have populations exceeding 100 000 people, are well connected, and their residents can no longer reasonably be considered isolated. Further, the available evidence does not support the conclusion that the cost of living in Darwin is significantly higher than in the other capital cities and, compared with *remote* and *very remote* areas, residents in Darwin have markedly better access to services (including health, education and telecommunications).

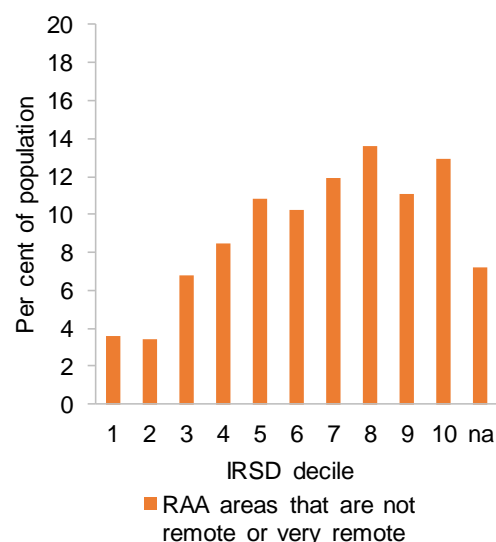
There is also a much lower percentage of people living in areas of high disadvantage in Darwin than in current RAA areas. Based on the ABS Index of Relative Socio-economic Disadvantage, less than 4 per cent (5400 people) of the population of Darwin live within decile 1 postcodes, whereas 13 per cent (11 000 people) live in decile 10 postcodes (figure 6.4).

Figure 6.4 The RAA and Darwin 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



^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: ABS (Census of Population and Housing (Cat. no. 2033.0.55.001); *Income Tax Assessment Act 1936* (Cth), Schedule 2.

Should the RAA be restricted to *very remote* areas alone?

In the draft report, noting that there are higher living costs on average in both *remote* and *very remote* communities than in *inner* and *outer regional* areas and the relevant state capital cities, the Commission expressed a slight preference for updating RAA areas to both ABS *remote* and *very remote* areas.

During draft report consultations and in submissions, the large majority of study participants (that discussed the RAA) supported this recommendation.⁸⁷ For example, the Tasmanian Government commented:

The proposal to adjust the RAA boundaries to align with ABS remote and very remote areas is sensible and ensures that modern definitions are taken into consideration when determining the

⁸⁷ Submissions that supported draft recommendation 6.1 to align the RAA geographical boundaries with the ABS remoteness classification for *very remote* and *remote* areas included those by Mia Davies (sub. DR106), the Weipa Town Authority (sub. DR121), the National Aboriginal and Torres Strait Islander Housing Authority (sub. DR137), the Government of Western Australia (sub. DR145), the Kimberley Regional Group (sub. DR158), the City of Karratha (sub. DR166), the Shire of Broome (sub. DR176), RDA Tasmania (sub. DR178), Isaac Regional Council (sub. DR184), South West Regional Economic Development (sub. DR187), the Tasmanian Government (sub. DR188), and the Torres Shire Council (sub. DR189).

level of additional assistance provided to those income support recipients that face higher costs of living. For Tasmania, this would result in recipients in a greater number of remote areas being entitled to the RAA. (sub. DR188, p. 4)

To better inform the judgement on whether RAA boundaries should be aligned with *remote* and *very remote* areas or just with *very remote* areas, the Commission has undertaken further analysis of living costs, access to services, mobility, and the level of disadvantage and adaptive capacity of communities in these areas.

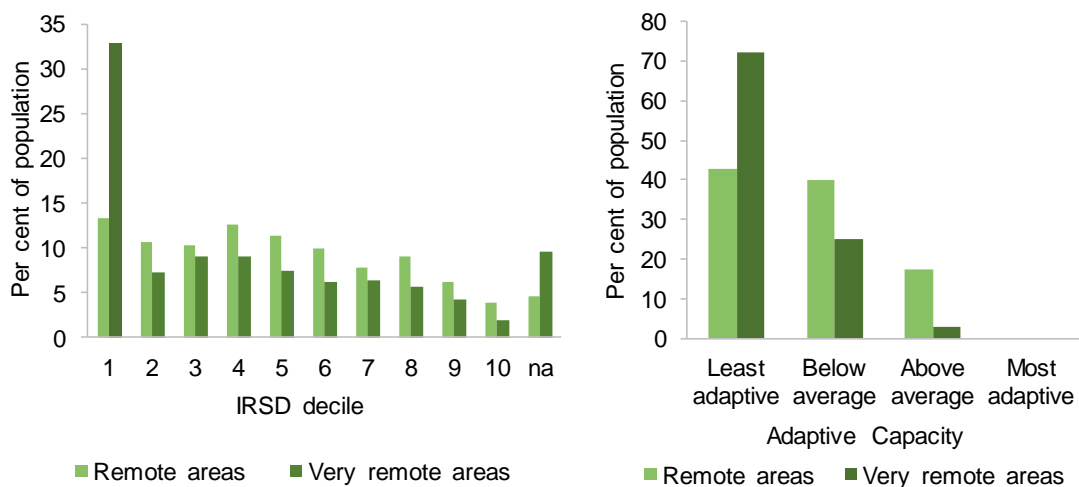
- The Commission looked at additional evidence on living costs in the Northern Territory (appendix B), which contains more than half of all RAA recipients. This evidence suggests that living costs increase with remoteness, similar to the pattern in Western Australia and Queensland, and are particularly high in *very remote* communities in the Northern Territory.
- Chapter 2 found that access to services is poorer in *very remote* areas than in *remote* areas. *Very remote* areas generally lack the larger towns (such as Port Hedland and Katherine) found in *remote* areas, which have airports, hospitals, schools, a diversity of shops and other services. Indeed, settlements in *very remote* Australia may be hundreds of kilometres from the nearest hospital, school, major supermarket or airport.
- As noted earlier, Indigenous attachment to country and community is an important factor limiting mobility and effective choice about whether to leave a remote area or to stay and face the challenges it presents. Almost half (46 per cent) of the residents of *very remote* areas are Indigenous Australians, whereas only 16 per cent of *remote* area residents are Indigenous (chapter 2).
- Figure 6.5 illustrates that people in *very remote* areas are disproportionately socioeconomically disadvantaged relative to those in *remote* areas (panel A). Although this is not a strong basis for determining the ABS remoteness areas to which the RAA should be made available, it does mean that aligning RAA boundaries with *very remote* areas alone would target the measure more accurately towards income support recipients living in areas with a greater density of disadvantaged people (which can compound the disadvantage that people in such areas face due to their personal circumstances). Similarly, the percentage of people living in areas with the least adaptive capacity increases with remoteness.⁸⁸ In *remote* areas, over 40 per cent of the population live in areas with the least adaptive capacity, whereas in *very remote* areas, this proportion is significantly higher at over 70 per cent (figure 6.5, panel B).

⁸⁸ ‘Relative adaptive capacity’ is a summary of a complex set of factors considered to influence regions’ capacities for resilience. These factors include the skills and education of regional workforces, access to infrastructure and services, availability of natural resources, financial resources available to businesses and individuals, and industry diversity. Information about regional adaptive capacity and the Commission’s metric can be found in the Commission’s 2017 study on *Transitioning Regional Economies* (chapter 4 and supporting material) (PC 2017d).

While there are arguments both for and against including *remote* areas within the RAA boundaries, the Commission’s analysis since the draft report — and consideration of the effect of access to services on the lives of those in different parts of remote Australia — suggest that, on balance, there is a stronger case for the RAA in *very remote* areas than in *remote* areas.

Figure 6.5 ABS areas of remoteness by areas of disadvantage and adaptive capacity^a

- A. *The percentage of people living in areas of high disadvantage increases with remoteness* B. *The percentage of people living in areas with the least adaptive capacity increases with remoteness*



^a For these purposes, the 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, while those in decile 10 are the least disadvantaged. Adaptive capacity is based on the adaptive capacity index score for ABS *remote* and *very remote* areas (approximated to Statistical Area Level 2) from the Productivity Commission’s *Transitioning Regional Economies Study Report* (PC 2017d).

Sources: ABS (Census of Population and Housing, 2016, Cat. no. 2033.0.55.001); *Income Tax Assessment Act 1936* (Cth), Schedule 2; (PC 2017e).

Some flexibility is warranted

Applying boundaries to government assistance programs is contentious, in particular for people who live just outside the borders of eligible areas. The National Aboriginal and Torres Strait Islander Housing Authority (sub. DR137, p. 3) emphasised that towns should not be spilt by boundaries. Further, when commenting on the Commission’s draft recommendation to realign the boundaries of the RAA, the Government of Western Australia proposed that:

Areas currently not classified as remote or very remote by the ABS but that are completely surrounded by remote or very remote areas should also be eligible as costs in these areas are, in general, higher than in other non-remote areas. (sub. DR145, p. 7)

The City of Kalgoorlie-Boulder, which is classified as an *outer regional* city in the middle of *very remote* country, suggested that appeals mechanisms needed to be established.

The City agrees that the RAA Boundaries need to be updated to reflect contemporary Australia. However utilising the Australian Bureau of Statistics' (ABS) Remoteness Areas Structure boundaries, as proposed by the Commission, does not adequately reflect the needs and level of isolation experienced by some regional communities.

Despite being located over 600 kilometres from Perth, Kalgoorlie-Boulder is classified as Outer Regional Australia according to the ABS' Remoteness Structure. Contrastingly, the town of Coolgardie, which is only located 40 kilometres from Kalgoorlie and closer to Perth, is classified as Very Remote Australia ...

If the ABS' Remoteness Structure is used to form the RAA Boundaries, the City requests that there is a mechanism for regional communities, such as Kalgoorlie-Boulder, to apply to have their classification reviewed. (sub. DR115, p. 2)

At present, RAA provisions allow a person who is next to (or close to) a RAA area to apply to the Commissioner of Taxation, who has the discretion to deem the area eligible for the RAA (DSS 2019). If adopted, the Commission's recommendation 6.1 — to align RAA boundaries with the ABS definition of *very remote* areas, under the *Social Security Act 1991* (Cth) — will mean that the RAA is no longer linked to the Income Tax Assessment Act, and will therefore make this appeal provision redundant.

Given that the Commission is proposing new and untested boundary definitions for the RAA, and that there is contention around the boundaries, there should be processes to allow for some flexibility in administration, and to address special circumstances or anomalies when this is warranted. That said, the Commission expects such anomalies to be few, and does not support expanding the RAA by these means to settlements in *outer regional* Australia.

The Commission envisages that if recommendation 6.1 is adopted, the Secretary of the DSS will have the discretion to determine eligibility for areas brought forward as cases of contention about the boundaries. However, it is important that rules around boundaries do not become overly complex, which would risk compromising transparency and introducing new anomalies.

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 *very remote* areas, as defined by the Australian Bureau of Statistics.

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 Australia 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 6.6).

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.

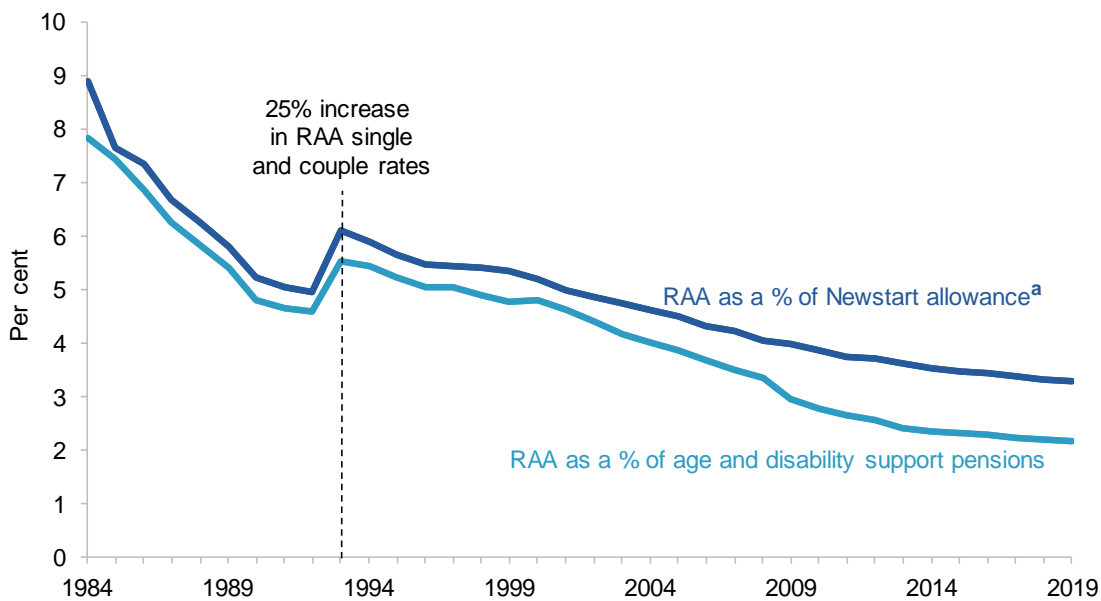
FINDING 6.3 (PART B)

RAA payment rates have not been adjusted in almost 20 years. As 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.

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 the energy supplement, carer supplement, pensioner education supplement, education entry payment, language, literacy and numeracy supplement, 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 CPI, either annually or biannually.

Figure 6.6 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 (based on the current objective of the RAA) 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 may have limited usefulness for other purposes.

Taking these considerations into account, the Commission’s preference is for the DSS to periodically review 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 initiate a process to set a new payment rate for the RAA following completion of this study.

There is no straightforward formula or basis that can be used to set the payment rates for the various income support payments. The Henry Review of Australia's Future Tax System found that:

While theory cannot tell us what the rates should be for the different payments, a number of factors can be considered. These include 'community standards', expected duration on payment, incentives to work and the overall coherence of the income support system. (Henry 2009b, p. 500)

Similarly, the McClure review into Australia's welfare system reported:

In setting rates in the new system the Government should consider:

- the balance between adequacy, incentives to work and affordability
- the coherence of the system. One payment should not be changed without considering the impact on other payments
- individuals' capacity to work. Higher rates should be set for people with limited capacity to work who are less able or unable to supplement their payments through earned income. (McClure, Aird and Sinclair 2015, p. 17)

The process for setting new payment rates for the RAA should reflect these overarching principles for the income support system as a whole as well as factors that relate to the specific objective of the RAA. There are four key considerations that should guide the Australian Government on setting new payment rates for the RAA.

First, consistent with Henry and McClure principles, any changes made to the RAA should meld with the broader income support system. For example, the wider implications and findings from the current Senate inquiry into the adequacy of Newstart and related payments (SSCCA 2019) should be considered when setting the payment rates for the RAA (although, as the RAA is a supplementary payment, any increase in the rate of other income support payments would not necessarily require an adjustment to the payment rates of the RAA). And other income support measures, such as commonwealth rent assistance, allowances for isolated children and the relocation scholarship, that help to address the difficulty of living in remote areas, should be considered.

Second, it is important that the RAA payment level and structure minimise 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 recipient is no longer eligible for a qualifying income support payment, thus cutting off eligibility for the RAA. However, given the current level of the RAA, this is only a hurdle across a small range of incomes.

Third, policymakers should consider the balance between the adequacy of RAA payment rates (in terms of meeting the measure's objectives) and the forgone benefits from spending on other priorities.

Finally, the level of payment should reflect how technological and economic advances have affected life 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)

Australia's regions are always changing. This makes it important to periodically review not only RAA payment rates but also the administration of the RAA itself, to ensure it is operating effectively.

RECOMMENDATION 6.2 REVISE RAA PAYMENT RATES

The Australian Government should initiate a process to set new payment rates for the remote area allowance (RAA). Revision to payment rates should be guided by the following considerations:

- coherence between the RAA and the broader income support system
- disincentives to work that the RAA could engender
- an appropriate trade-off between the adequacy of payment rates and the forgone benefits from spending on other priorities
- the impact of technological and economic advances on life in remote Australia.

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 main 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).
- Stakeholder views on the policy intent of the FBT remote area concessions differ. Some argue that it is to provide equitable tax treatment where applying the full rate of FBT would penalise employers that have operational reasons to provide particular goods and services to employees. Others argue that the concessions are to promote regional economic development and service delivery by giving employers greater financial capacity to attract and retain employees. Yet others said concessions should target both objectives.
- The use and economic effects of the FBT remote area concessions vary.
 - The exemption for employer-provided housing (as usual place of residence) can provide significant tax savings at the employee level, particularly for higher-income employees, and could cost as much as \$390 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 Bowen Basin and Central Highlands 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 partial concessions are 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 very complex with high compliance costs.
 - FBT exemptions for fly-in fly-out workers, while widely used, are likely to have 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.
 - The 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, which creates other inequities including artificial cost advantages for some businesses which, in turn, encourage inefficient investment.
 - The concessions are not a cost-effective way to motivate employees or employers to move to, or invest in, specific regions in a way that aligns with regional priorities.

Australia's fringe benefits tax (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 (ZTO) (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,⁸⁹ equivalent to the top marginal individual income tax rate (plus the Medicare levy). It applies to any goods or services provided to employees, including reimbursement of employee expenses, except those excluded 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. For example, a full-time employee on average weekly ordinary time earnings, which is equivalent to annual income of \$85 010, will have an income tax liability of \$20 875 (including the Medicare levy, but excluding any tax offsets), implying an effective tax rate of 25 per cent. That employee will clearly find a fringe benefit of \$1000 (taxed at 47 per cent) unattractive compared with receiving the \$1000 (and paying tax at 34.5 per cent, the marginal tax rate between \$37 001 and \$90 000, including the Medicare levy).

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 2019c).

Since its introduction, the FBT regime has been criticised on several grounds. Reviews have identified problems such as complexity, high 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.⁹⁰ 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.

⁸⁹ 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 is entitled to claim a GST credit on the benefit, or 1.8868 where they are not). 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).

⁹⁰ 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 Tax Review (2009b, 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 Tax 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 FBTAA 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' (Henry 2009b, 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 Tax Review (2009b, 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 undertaken 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, employers may claim tax concessions for some goods and services provided to employees working in designated remote areas. The remote area concessions take two main forms:

- exemptions, whereby the good or service is not subject to any FBT

- partial concessions, commonly where the taxable value of the good or service is reduced (often by 50 per cent) for the purposes of calculating FBT.

Remote area concessions can be further grouped into three categories (figure 7.1):

- concessions (both exemptions and partial concessions) 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	
<p>Exemptions</p> <ul style="list-style-type: none"> • Employer-provided housing that is an employee's usual place of residence 	<p>Partial concessions</p> <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	
<p>Exemptions</p> <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 	<p>Partial concessions</p> <ul style="list-style-type: none"> • Not applicable
Other remote area concessions	
<p>Exemptions</p> <ul style="list-style-type: none"> • Meals provided to primary production employees • Certain travel for employees provided for compassionate reasons. 	<p>Partial concessions</p> <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 are only 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.

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. Section 58ZC(2)(d) of the FBTAA 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 and Divisions 14A and 14B 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.

Employee-sourced housing attracts partial FBT concessions, although the actual operation of the concessions vary. For the remote area housing benefits specified in s. 60 of the FBTAA, 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. (Box 7.2 further explains these differences.)

Box 7.2 Different methods for calculating the reduction in taxable value for employee-sourced housing

FBT calculations are based on 'taxable value', which is the value or cost of a particular good or service provided to an employee. If a good or service does not attract a concession, FBT is calculated by taking this value and deducting any employee after-tax payments towards the cost of the good or service. This taxable value is then grossed-up to reflect the pre-tax equivalent value of the benefit (the gross-up rate where the employer is not entitled to claim a goods and services tax (GST) credit is 1.8868). Finally, it is multiplied by the FBT rate of 47 per cent.

If, for example, an employer provided a benefit valued at **\$100**, the FBT payable would be calculated as follows:

$$\begin{aligned} \text{FBT} &= \text{taxable value} \times \text{gross-up rate} \times \text{FBT rate} \\ &= \$100 \times 1.8868 \times 0.47 \\ &= \mathbf{\$88.68} \end{aligned}$$

Where a concession confers a 50 per cent reduction in taxable value (say, for remote area mortgage assistance), the FBT amount for a benefit valued at \$100 would be calculated as follows:

$$\begin{aligned} \text{FBT} &= (\text{taxable value} \times 50\%) \times \text{gross-up rate} \times \text{FBT rate} \\ &= (\$100 \times 0.5) \times 1.8868 \times 0.47 \\ &= \mathbf{\$44.34} \end{aligned}$$

However, the taxable value of remote area rent assistance is reduced by 50 per cent of the gross rent, not the value of the assistance provided. 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. Following on from the above examples, if an employer provides a benefit valued at \$100, then the FBT amount would depend on the value of the gross rent.

$$\text{FBT} = (\text{taxable value} - (\text{gross rent} \times 50\%)) \times \text{gross-up rate} \times \text{FBT rate}$$

If the gross rent was \$100 — that is, if the employer paid for all the rent — then FBT would be calculated as follows:

$$\begin{aligned} \text{FBT} &= (\$100 - (\$100 \times 0.5)) \times 1.8868 \times 0.47 \\ &= \mathbf{\$44.34} \end{aligned}$$

However, if the gross rent was \$200 — that is, if the employer reimbursed only half the rent — the taxable value would be reduced to zero.

$$\begin{aligned} \text{FBT} &= (\$100 - (\$200 \times 0.5)) \times 1.8868 \times 0.47 \\ &= \mathbf{\$0} \end{aligned}$$

In this case, with the taxable value reduced to zero, there is no FBT liability. Accordingly, the concession on rent for employee-sourced housing can operate in a manner akin to a 'partial' exemption, because up to 50 per cent of the employee's rent can be reimbursed FBT free.

For remote area housing ownership schemes, Division 14A of the FBTAA provides for the amortisation of the taxable value over multiple years (typically seven years), rather than the total FBT liability occurring in the year that the housing assistance is provided. For example, if a block of land were provided to an employee, the value of this land would be split over multiple years for the purposes of calculating FBT. Applicability of this concession is restricted to benefits provided as part of remote area housing schemes where there are restrictions on the ability of the employee to dispose of the property. Division 14B provides for a 50 per cent reduction in taxable value where the repurchase consideration is less than the market value.

For the concessions on assistance with employee-sourced housing to apply, conditions set out in s. 142 of the FBTAA must be met. As for employer-provided housing, one of the three legislative tests (as described above) must be satisfied to show that the assistance is *necessary*. However, the section contains an additional requirement that the housing assistance must 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 several 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 irrespective of geographic location, 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 worksite is in an FBT remote area. Employers using FIFO

arrangements can structure their employment arrangements under the ‘otherwise deductible’ rule⁹¹ 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 onsite, 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.

Other remote area concessions and exemptions

There are also other concessions for employees in remote areas.⁹²

- **Residential fuel.** Section 59 of the FBTA includes a 50 per cent concession on the provision of residential fuel (electricity and gas).⁹³ 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 employees’ meal 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 FBTA. These concessions are capped, and are restricted to employees for whom the entitlement is specified in an award, or where 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.

⁹¹ 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.

⁹² There are an additional two concessions that are linked to remote areas, but they have a much narrower application and are not analysed further in this report. The first is an exemption for compassionate travel (s. 58LA of the FBTA), where one of the eligibility criteria is residence in an FBT remote area (other criteria include living away from home and travelling for work purposes). The second is the classification of the freight costs of foodstuffs provided to employees in FBT remote areas as an ‘excluded fringe benefit’ (s. 5E(3)(k) of the FBTA).

⁹³ Water is not subject to the concession, but is exempt when provided in conjunction with employer-provided housing.

Further, the concession applies to designated family members when they live with the employee in a remote area, or when they are travelling to meet the employee.

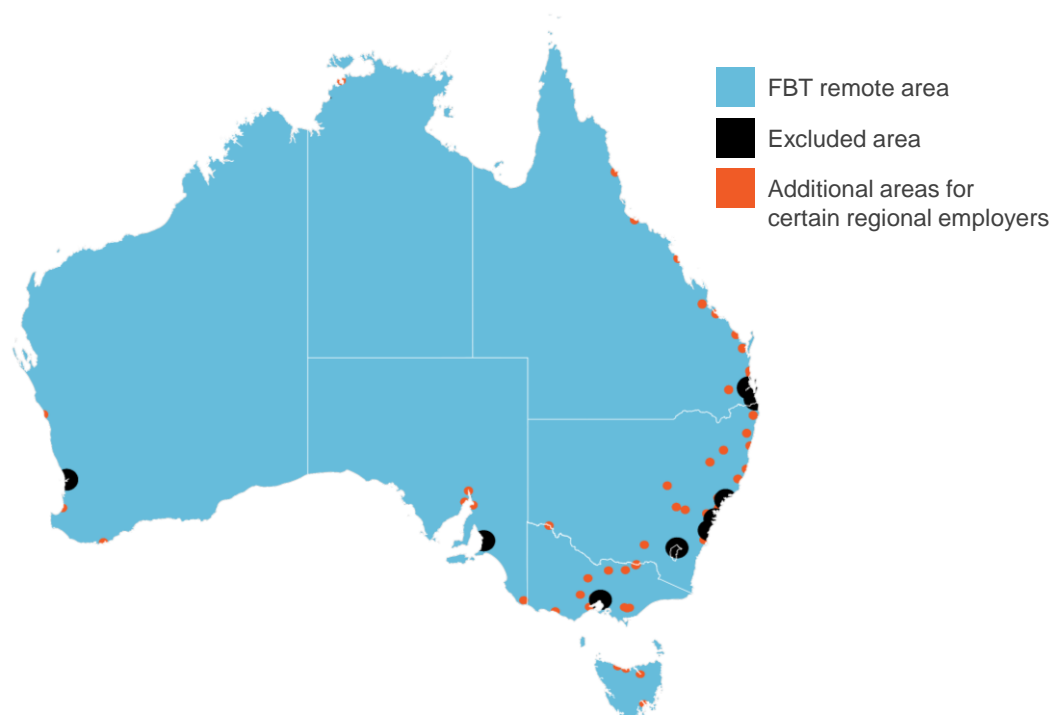
Remote area concessions apply broadly across most of Australia

The geographic boundaries that define ‘remote areas’ for FBT purposes are based on the distance — by road, as they existed in 1986 — between the employee’s location and various-sized ‘eligible urban areas’, defined by population figures from the 1981 census. The population threshold that defines an eligible urban area is higher if the urban area is located in a 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.
- 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 some 97 per cent 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, the FBT remote area includes 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. Similarly, changes to road infrastructure since 1986 mean the current FBT boundaries might not accurately reflect current road distances from some remote locations to eligible urban areas.

Several submissions to this study noted the debates about the constitutionality of basing tax concessions on specific geographic locations (chapter 1).

There is no clearly stated objective, and stakeholder views differ

Although the FBTA does not specify the objectives of the FBT remote area concessions, several arguments are often made in support of the arrangements.

One 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 discourage the provision of goods and services in favour of wage income; however, in cases where provision of the good or service is unavoidable, it creates a larger tax obligation (in most cases) than if the employee was paid the equivalent in wage income.

Some participants have put forward arguments for the FBT remote area concessions that align with 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)

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)

By contrast, many participants have endorsed the concessions as a way of encouraging people (especially workers) to move to remote areas and remain there. Some of these participants ultimately had regional economic development in mind, although others were concerned more specifically about the viability of their own business or industry — or, separately, about service provision (box 7.3).

This broader regional assistance 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 7.4).

The effectiveness of the FBT remote area concessions against these objectives is assessed in section 7.3.

Box 7.3 Many participants think the FBT concessions should help to attract and retain people in remote areas

Some stakeholders submitted that the concessions should be used to move people towards regional areas or away from the cities.

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)

The combination of tight labour markets, a lack of labour supply and stagnant population growth in parts of remote WA over the past decade highlights that remote area tax concessions and payments should continue to have the core policy objective of regional development. They should continue to aim to entice employees to live in remote areas by compensating them for higher costs of living and poorer access to government services. (WALGA, sub. DR124, p. 3)

Accordingly, the FBT remote area concessions remain a sensible way of incentivising employees to relocate due to the connection with employment ... 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)

In addition, many stakeholders argued that the concessions were important specifically for attracting and retaining staff. Often, their concern was for their business or industry, although businesses and business organisations frequently invoked community or 'social impact'.

Our view is that the proposed changes to the FBT concessions and exemptions will adversely impact Kalgoorlie-Boulder (and surrounding areas) and may give rise to an increase in FIFO arrangements. We therefore recommend that the application of remote area FBT concessions (or exemptions) are maintained for geographic locations such as Kalgoorlie-Boulder and similar regional towns to support the residential community, and provide a framework for attracting prospective employees and their families. (Northern Star Resources Limited., sub. DR120, p. 1)

Any decision which negatively affects the company's ability to attract and retain staff close to its assets, will detrimentally impact on the company's ability to manage its operations in a timely, cost effective, efficient and safe manner. ... Any adverse impacts on social structures in communities regarding housing will affect not only the ability to attract and retain staff, but may lead to negative social impacts. (Snowy Hydro Limited, sub. DR177, p. 4)

AgForce along with other stakeholders, including those representing parents of isolated children, have concerns about the recommendations on reducing FBT concessions and subsequent potential impacts on the ability to retain an agricultural workforce living in remote areas. (AgForce Queensland Farmers, sub. DR154, p. 2)

Some participants primarily expressed concern about the staffing of public services.

The free housing entitlement for police officers has been identified for many years as a necessary attraction and retention inducement for the recruitment of new members into the Northern Territory Police Force. (NTPA, sub. DR129, p. 5)

The removal of these concessions would require us to increase salaries to stay competitive which would ultimately lead to us employing less people as our revenue will not increase to cover these increases. Ultimately, the impact will be a reduction in the health services to the people in Australia who need the services most. (Central Australian Aboriginal Congress Aboriginal Corporation, sub. DR152, p. 2)

Box 7.4 Evolution of the FBT remote area concessions over time

The FBT remote area concessions have been changed over time, often with the objective of fostering regional economic development.

Providing housing to employees is a long standing practice that pre-dates the introduction of the FBTAA in 1986. Remote area housing concessions were included in the Act on commencement, and existing income tax measures that provided similar concessions were repealed.

Early changes included the introduction of amortisation concessions on remote area employee home-ownership schemes. The explanatory memorandum to the Taxation Laws Amendment Bill (No. 4) 1988 (Cth) (p. 18) gave the following reasoning for the additional concession:

The remote area housing schemes eligible for this concessional treatment are ones designed as incentives to employees to acquire their own housing and thus establish themselves in the communities where they live and work.

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* (Cth)). 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* (Cth) 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 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* (Cth).

7.2 Use and economic effects of FBT concessions

Data on the use and fiscal cost of FBT remote area concessions are not readily available from a central source. Employers are not required to report exempt goods and services to the ATO, and those expenses are 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.

The Commission has therefore drawn on a range of sources to shed some light on the use of these concessions, to provide a better sense of their potential costs to the Australian Government and to gauge their economic impacts. This process has included surveying three sectors: mining, agriculture and local government administration (appendix C).

Remote area housing used as a 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 provide significant tax savings 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 7.5). 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 FBT revenue. In the absence of the concessions, employers might not provide housing in a way that attracted FBT.

In determining the tax savings from 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 7.5 Tax savings from FBT concessions can be substantial^{a,b,c,d}

Tax savings to individuals from FBT concessions depend on the individual's income, the value of the good or service, and the way it is provided. To illustrate, consider the tax savings to four employees — Mya, Jack, Tony and Nahid — from receiving housing or housing assistance, instead of paying for housing from their after-tax incomes. These calculations (shown below) 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 fully exempt (0 per cent) or concessional (30.7 per cent) housing assistance.
- Exemptions are more valuable than partial concessions. A 50 per cent reduction in taxable value can provide up to half the savings of a full exemption, but not if employees' incomes are below the top personal income tax bracket. However, the concession on rent reimbursement operates differently (box 7.2), and can be equivalent to a 50 per cent exemption.
- 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 and 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 concession (50%):	\$851
If rent concession:	\$2 691



Jack'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 concession (50%):	\$3 666
If rent 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 concession (50%):	-\$4 075
If rent concession:	\$1 683



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 concession (50%):	\$6 110
If rent concession:	\$6 110

^a For employer-owned property, 'housing costs' would be the equivalent market rent (less any employee contributions). ^b In these examples, a partial concession is a 50 per cent reduction in taxable value of the total housing costs. A rent concession is where employers reimburse a proportion (typically 50 per cent or less) of an employee's gross rent expenses, leading to a larger reduction in taxable value (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 2018-19 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 42 000 employer-provided dwellings used as an employee's usual place of residence in the FBT remote area⁹⁴ (appendix C). 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 (used as a usual place of residence) are concentrated in certain industries: agriculture, forestry and fishing; mining; public administration and safety; and education and training (appendix C). About half of all employer-provided dwellings (as usual place of residence) 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 (as usual place of residence) are concentrated in regions where these industries are dominant — such as the East and West Pilbara (Western Australia), the Bowen Basin (Queensland), the Central Highlands (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 cost of the exemptions (in terms of forgone FBT revenue) for employer-provided housing (as usual place of residence) to be between \$300 million and \$390 million (appendix C).⁹⁵ 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 fiscal 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 indicates that these concessions are less frequently used than the exemption for employer-provided housing. Second, the tax savings from these partial concessions are 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 reduce employment costs, and so will tend to increase

⁹⁴ Including dwellings provided by 'certain regional employers' in the additional declared areas.

⁹⁵ An important caveat to this estimate is that FBT can be tax deductible, so any increase in FBT revenue would be partly offset by some reduction in company/income tax. It is not possible to make this adjustment as it requires a host of additional data, such as the marginal tax rates of sole-traders and company shareholders (if profits are returned as franked dividends).

employment in regions where they are heavily used. In doing so, they also tend to draw resources away from other regions (or industries in the same region) that do not or cannot access the concessions. As such, the net effects on employment are complex and extend beyond the directly-affected 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 7.6). 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 the City of Karratha:

Reducing the FBT concessions available to the City would increase the City's costs substantially and therefore reduce our capacity to deliver services and facilities. (sub. DR166, p. 3)

Similar concerns were also expressed by other local governments, including, for example, the Shire of East Pilbara (sub. DR155, p. 4) and Isaac Regional Council (sub. DR184, p. 2).

Box 7.6 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 7.7). 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) for a partial concession under one of the s. 60 provisions. 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.

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.

Box 7.7 Participant views on compliance burdens

The Regional Chambers of Commerce and Industry of WA (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 & 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 Minerals Council of Australia 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).

... 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 4 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 2017a).

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 onsite (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 from 2016 census data (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 the vast 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 & MCA 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 — elicits strong, but mixed, views among people in remote communities, source communities and industry.

Some in remote communities take a pessimistic view. Many study participants argued that the sustainability of townships is threatened by large-scale FIFO practices, and that FBT concessions for FIFO workers contribute to this effect. Regional authorities said they often struggle to maintain infrastructure and a sense of community with a transient and non-rate-paying population.

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 claimed 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 Alexander Fullarton (sub. 1) and the Northern Territory Government (sub. 60), argued that the relevant FBT concessions encourage workers to use FIFO arrangements rather than to live locally and support the economic viability of the area. If the purpose of FBT remote area concessions is to promote regional economic 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). 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)

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, Townsville City Council 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).

Particularly for the investment or construction phase of a mining boom, the temporary spike in employment during such a boom does not warrant a permanent local workforce. As found in the Commission’s (2017d, p. 33) *Transitioning Regional Economies* report (Finding 3.5):

Mobile labour (such as fly-in, fly-out workers) was instrumental in meeting the high demand for workers during the investment phase of the resources boom, and helped to spread the benefits of the boom to other regions.

Many of the workers employed in the investment phase lived in regions outside mining areas, such as capital cities and other regional centres, or temporarily lived in the region. In addition, many mining workers work in capital cities and their greater metropolitan areas.

The natural completion of the high mining investment phase has affected labour markets and economic conditions across the country, particularly in Western Australia but also in many regions outside of traditional resources areas.

FBT arrangements likely have 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 primary motivation. For the investment or construction phase of a project — where there is a temporary spike in employment — most workers will be employed on a FIFO basis, as it is too expensive (and unreasonable) to require employees to change their residence for a short period of time. During the operational phase, 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)

Representatives of the mining industry emphasised that offering choice between FIFO and residential options (where available) is an essential part of corporate strategies to attract and retain skilled staff (MCA, sub. 76, p. 3; CME, sub. 95, p. 5). Offering a choice helps to reduce the costs associated with staff separations, estimated to average about \$52 000 in 2003 (about \$75 000 in 2019 dollars) per separation (Beach, Brereton and Cliff 2003). This is about 10 times more than the estimated average annual tax savings from the FBT exemption on an employer-provided dwelling, and about 20 times more than the annual tax savings of a 50 per cent concession (appendix C).

Some participants disagree that employers only use or offer 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 the local community.

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 (46 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. Moreover, the FBT concessions (while benefiting the businesses that use them) are unlikely to have a strong influence on the residence options (locally-based or FIFO) that mining companies offer their staff. Turnover costs are too substantial, and FIFO options are a part of businesses' broader strategies for attraction and retention.

The tax savings 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 (under the living-away-from-home allowance provisions), or those associated 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 (such as the 'otherwise deductible' rule) 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 several concessions for 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

The other FBT concessions available for employees in remote areas are:

- 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 \$1000 per year for a household, with the Commission estimating an overall fiscal cost of about \$19 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, fishing or pearling, and tree farming or felling. 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 spend substantial amounts that would be eligible for the exemption. However, in other cases, the cost of provided meals is likely to be more modest. The Treasury estimated that the fiscal cost 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 fiscal cost of this concession was up to \$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 2014a). These additional concessions are generally of a smaller magnitude than the housing arrangements, although if they were all used for a single employee, 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 7.7) 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)

Such complexities further limit the use of other concessions compared with the housing concessions.

FINDING 7.1

The use of fringe benefits tax (FBT) remote area concessions varies.

- The exemption for employer-provided housing (used as a usual place of residence) can provide significant tax savings at the employee level, particularly for higher-income employees, and could cost as much as \$390 million per year in forgone FBT revenue nationally. Usage is concentrated in certain areas — such as the Pilbara in Western Australia, and the Bowen Basin and Central Highlands 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 partial concessions are 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 providing regional assistance (by promoting regional economic development and supporting service delivery), the concessions are too difficult to access (particularly for small business) and fail to attract people and investment 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.

Tax concessions in general have inherent drawbacks, regardless of the objective they are striving to pursue. They are less transparent than direct government outlays, subject to little public scrutiny and review, and introduce complexity into the tax system (box 5.2). These significant drawbacks led the Henry Tax Review to recommend that programs should not be delivered as tax concessions ‘unless there is a clear countervailing benefit in terms of efficiency, equity, complexity, sustainability and policy consistency’ (2009b, p. 725). The Commission concurs with this view.

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. Differences in costs for businesses created by discriminatory tax treatment also encourages inefficient investment decisions.

In the absence of broader changes to the FBT regime, remote area concessions are the most direct and practical way to address tax equity concerns with the operation of FBT where employers have an operational reason to provide goods and services.

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 7.8 outlines an approach for aligning FBT with the nature of goods and services provided to an employee). 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 7.8). 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 7.8 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 (that is, it would not otherwise be considered a deductible work-related expense), 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 — that is, 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, relocating closer to their place of employment is an option for only a minority of FIFO workers (section 7.2), and removing the FBT concessions for FIFO workers would unfairly penalise employers for whom a FIFO workforce is the only option. This would make it an expensive and blunt way to foster regional economic development.

... but current arrangements go well beyond 'equitable tax treatment'

Exemptions for employer-provided 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 7.9).

Box 7.9 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 provides a private benefit to the employee (box 7.8). Most people have to pay the costs associated with their usual place of residence from after-tax income (box 7.9), 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, it is conceivable that individuals could be benefitting from the exemption in places like Darwin, Townsville, Cairns or Byron Bay, and in some cases, for high-end properties.

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 assistance goals 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 can 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 personally purchasing services such as transport, accommodation and meals 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.

The current FBT boundaries are outdated

Although geographical restrictions are a comparatively simple, objective and intuitive way of approximating those circumstances where an employer needs to provide a good or service for operational reasons (such as remote area housing), the current boundaries are based on measures of population from the 1981 census and road distances as they existed in 1986. Since then, 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.

The reliance on a 1986 road map also adds to the complexity of administering and complying with the concessions. It makes it more difficult for the ATO to provide guidance and determinations, and to enforce employer compliance. In borderline cases, it may also be difficult for employers to accurately determine eligibility.

The concessions are poorly targeted to regional assistance goals

Given that there are compelling arguments for using the FBT remote area concessions to help address inequities inherent in the FBT regime, should they also be used to promote regional economic development or facilitate service delivery by making it cheaper to attract and retain staff to these areas?

Regional economic development

As discussed above, policy measures should not be delivered as tax concessions unless there is a clear benefit in terms of ‘efficiency, equity, complexity, sustainability and policy consistency’ (Henry 2009b, p. 725). The Commission does not consider that there is such a benefit in the case of using the FBT remote area concessions to promote regional economic development. Further, the concessions do not align with the general principles for regional economic development identified by the Commission in chapter 5.

Regional economic development measures should have a clear rationale and avoid having conflicting objectives (chapter 5). Using a policy instrument to address inequities in the FBT regime, and simultaneously pursue regional economic development objectives with the same instrument, inevitably leads to conflicts in the absence of a transparent mechanism for resolving or balancing trade-offs between the two objectives. For example, FBT exemptions for FIFO workers are warranted to address inequities in the FBT regime, but many participants argued that they run counter to regional economic development objectives (as discussed above).

Similarly, the concessions’ current boundaries are broad, covering about 97 per cent of Australia’s landmass. Broad boundaries may be appropriate from a tax equity perspective, as a way of covering areas where employers may have an operational requirement to provide certain benefits to their employees. However, this is not a cost-effective way to motivate people to move to or invest in specific regions in a way that aligns with regional priorities. Economic development policies are more likely to be cost-effective in supporting sustained economic growth if they focus on harnessing the capability and locational advantages of particular communities or regions (chapter 5).

Finally, there are already a range of measures that specifically target regional economic development (chapter 3) without also trying to address inequities inherent to the FBT regime. Instead of using the same policy instrument to pursue multiple (and sometimes competing) objectives, governments can implement policies specifically targeted at promoting regional economic development. To this end, the general principles for regional economic development policy identified by the Commission in chapter 5 should guide governments in implementing new measures and improving existing ones.

Service delivery

Similarly, the Commission does not consider that there is a clear benefit to using tax concessions over direct government spending in supporting the delivery of public services in regional and remote Australia. These concessions, by virtue of being applicable across most of Australia’s landmass, make it difficult to take into account the specific and varying services needs of regional and remote communities. They also carry the significant drawback of obscuring the cost of delivering public services in regional and remote areas.

Governments have many measures in place to support access to public services in regional and remote Australia (chapter 3). However, as noted in chapter 5, how governments can most effectively support access to public services in remote Australia is a complex topic and goes beyond the scope of this study. Chapter 8 suggests ways in which the Australian Government could mitigate the impact on service delivery agencies arising from the recommended changes to the FBT remote area concessions.

FINDING 7.2

Fringe benefits tax (FBT) remote area concessions help to address inequities inherent in the FBT regime, but the current concessions are not fit for purpose — they are overly generous and complex. This creates other inequities, including artificial cost advantages for some businesses which, in turn, encourage inefficient investment.

Simultaneously trying to address inequities in the FBT regime and pursuing regional assistance goals has meant that the concessions have been poorly targeted to both objectives, which are better addressed separately.

8 Improving the FBT concessions

Key points

- The most compelling argument for fringe benefits tax (FBT) remote area concessions is to address inequities in the FBT regime. In some cases there are operational reasons to provide goods and services (such as housing) to employees, and it would be inequitable and inefficient to apply the full rate of the FBT. Nevertheless, the concessions should be better targeted.
- The Australian Government should replace the exemption for employer-provided housing (as usual place of residence) with 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 the incentive 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). The Australian Government should develop simplified valuation methodologies to reduce the (incremental) compliance costs associated with this recommendation.
 - 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 partial concessions on other forms of housing assistance (such as rent or mortgage assistance) provided to employees residing in remote areas should be removed.
 - There is not an operational requirement for employers to provide these forms of 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 boundaries for the concessions should be updated to reflect current populations and contemporary road infrastructure.
- The Commission's suite of recommendations should be introduced with a delayed start date (two years) to provide time for current users to adjust and restructure their business affairs.
- The proposed changes are expected to generate net benefits in terms of:
 - delivering more equitable tax treatment and efficiency gains by reducing distortions in investment decisions and the costs of providing services
 - improving transparency by making the costs of providing critical public services to remote areas more explicit, and implementing some basic reporting of concession use to the ATO
 - generating tax revenue that could be used for other priorities or to reduce taxes elsewhere.

The most compelling argument for fringe benefits tax (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 and inefficient 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 discussion of implementation issues: transitional arrangements, and measures to mitigate adverse impacts on service delivery (section 8.5).

8.1 Approach to assessing alternative options

Balancing precision and simplicity

As discussed in chapter 7, simultaneously trying to address inequities in the FBT regime and pursuing regional development goals has meant that the concessions are poorly targeted to both objectives. The focus of the FBT remote area concessions should be on addressing tax inequities and reaping the efficiency gains that more tax neutral arrangements would generate.

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 salary and wages (hereafter, ‘wages’) as on remuneration provided in the form of goods and services, employers would not 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 and efficiency 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 happen to attract concessions.

Improving tax neutrality would also foster more efficient investment decisions by reducing artificial cost advantages afforded to some businesses (such as those that can offer their employees housing as part of a remuneration package) through FBT exemptions and 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 remains 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.⁹⁶ In most circumstances, the FBT rates applicable to employer-provided goods and services will differ from employees' marginal income tax rates, resulting in an incentive to favour one form of remuneration over the other.

The inability to achieve perfect tax neutrality means that the concessions will sometimes continue to provide a tax advantage, and so there is a need to limit access to them. Accordingly, each concession (or exemption) should be justified by an operational requirement for the employer to provide a particular good or service. An operational requirement might exist either because the good or service is necessary for the employee to undertake their work, or because it is not feasible for employees to purchase the good or service themselves. (Box 7.8 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 on whether it privately benefits the employee.)

In applying these principles to a particular concession, trade-offs need to be considered; ultimately, there will be some degree of judgment in defining the design, eligibility criteria and compliance obligations. For instance, if the eligibility criteria are too lax, the risk of misuse of the concession will increase. On the other hand, overly prescriptive criteria may preclude employers from accessing the concession where there are operational reasons to provide a good or service.

⁹⁶ 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 plus 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 goods and services where the employer cannot claim a GST input tax credit). 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 ($0.445/(1+0.445)$).

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 (2009b) — would address neutrality concerns and fundamentally alter the case for specific concessions. The Commission supports such broader reforms to the tax system, which would yield net benefits to the Australian community.

Compliance costs need to strike the right balance

When redesigning the FBT remote area concessions, compliance and administrative costs must be balanced against tax neutrality goals. For low value items, compliance costs associated with a partial concession may outweigh the tax neutrality benefits. As such, exemptions may be warranted, because the compliance burden would be disproportionate to the improvement in tax neutrality or the additional tax revenue generated.

However, where the concessions are more material, higher compliance burdens are justified on tax neutrality and integrity grounds, and by efficiency considerations. While compliance costs should be the minimum necessary for the concessions to achieve their objectives, minimising compliance costs should not be the primary objective of an FBT regime.

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 Australian Government could change two main features of the concessions.

- *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 that good or service also privately benefits the employee.
- *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 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 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, individuals could use the exemption for 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 provide large tax savings where incomes and housing costs are high.)

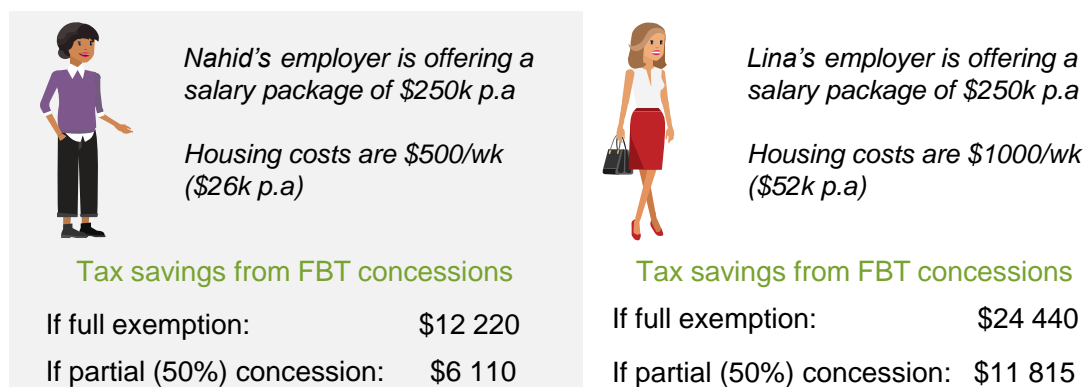
As an overly generous concession with loose access rules, the exemption enables eligible remote employers to reduce their FBT liabilities by much more than the amount required to compensate them for the inequities in the FBT regime where there is an operational requirement to provide housing. This creates an artificial cost advantage compared with employers who are not eligible for the exemption or who could find it difficult to offer their employees housing as part of a remuneration package (such as a small business). The effects are threefold.

- Overall economic output could be lower as artificial advantages channel resources (such as capital investment and labour) towards less efficient businesses.
- There is less money available to spend on public goods and services for the rest of the community, or taxes must be increased elsewhere (with associated economic losses to society), as a substantial amount of revenue is forgone.
- There could be a small competitive advantage for some organisations tendering for government service delivery contracts that is not accounted for during the tendering process.

There is also little transparency about the use of the concession and the amount of forgone revenue as housing provided under the exemption is not reported to the ATO.

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



^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 2018-19 income tax rates.

Source: Commission estimates.

The full exemption should be changed 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 7.4 discusses the evolution of remote area concessions.)

This change would bring the concession closer to tax neutrality. It would not generally penalise employers providing housing because a 50 per cent reduction in taxable value results in an effective tax rate of 30.7 per cent, which is closer to the marginal income tax rate most employees pay.⁹⁷ Some 78 per cent of employees who receive employer-provided housing in the FBT remote area are on incomes (excluding the value of housing) of more than \$37 000 per year (table 8.1), and so a 50 per cent concession would still provide a cost saving compared with paying for accommodation from after-tax income (figure 8.2). However, 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.

⁹⁷ The Commission favours a 50 per cent reduction because of its effect on the effective FBT rate, not to reflect a split between private benefit and business use.

Table 8.1 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	7
\$18 201 – \$37 000	21	15
\$37 001 – \$90 000	34.5	43
\$90 001 – \$180 000	39	31
\$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 1 per cent of cases), the reference person of the first listed household was chosen. ^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.

Sources: Commission calculations based on ABS (*Census of Population and Housing Microdata*, 2016, cat. no. 2037.0.30.001), appendix C.

Where employees are on incomes of less than \$37 000 per year, which is the case for about 22 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.

Although there is a range of rates that would improve tax neutrality, 50 per cent has the benefit of simplicity. For instance, a 50 per cent concession would align the concession rate on employer-provided housing with other partial concessions in the *Fringe Benefits Tax Assessment Act 1986* (Cth) (FBTAA), including the remote area concession for residential fuel.

Figure 8.2 Tax savings under the current and proposed housing concessions — an illustrative example^{a,b,c}

Tax savings by total annual income (including housing valued at \$15 600)



^a Total income includes wage income as well as the value of housing. The value of housing includes any FBT payable — so, under the proposed partial concession, housing is valued at \$22 517 (including FBT). ^b Because of the low marginal tax rates faced by low-income employees, the proposed 50 per cent reduction in taxable value would create a higher tax liability compared with paying the employee the value of the benefit as additional wages. ^c For simplicity, the following have been excluded: the effect on the employer's superannuation guarantee liability, other costs associated with labour (such as payroll taxes), and tax offsets and deductions. Also, the Medicare levy has been included on all wage incomes above \$18 200, when in reality it generally begins to apply on wage incomes from \$22 398 (with a part rate applying up to \$27 997).

Source: Commission estimates.

Should employer-provided remote area housing be reportable?

Generally, where a fringe benefit is provided to an employee, the grossed-up value of the benefit is attributed to that employee as a reportable fringe benefits amount (RFBA). This is then taken into account in determining an employee's eligibility, or liability, for other concessions or tax obligations.⁹⁸ The introduction of RFBA's (on 1 July 1999) was intended to enhance fairness and, as an integrity measure, reduce incentives to use non-wage remuneration to avoid tax obligations. The explanatory memorandum to the A New Tax System (Fringe Benefits Reporting) Bill 1998 spelled this out:

The policy objective of this measure is to enhance the fairness of the taxation and social security systems by enabling the value of fringe benefits to be taken into account in income tests for

⁹⁸ 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, and higher education loan program repayments.

determining entitlement to government benefits, and liability to tax surcharges and income related obligations. This will minimise the opportunities available to employees to swap cash salary for fringe benefits to avoid surcharges and levies and to access rebates to which they would not otherwise be entitled on the basis of their total remuneration. (p. 2)

That explanatory memorandum also explained that some benefits would be exempt from being reportable, and explicitly noted that meal entertainment and car parking benefits should be excluded because the ‘compliance costs associated with reporting these excluded benefits outweigh the equity considerations that this measure is seeking to address’ (p. 3). However, when subsequently enacted, the remote area FBT concessions were also classified as excluded benefits, although the reasoning behind this is unclear.

In principle, remote area housing benefits should be treated like other fringe benefits (and monetary remuneration) and made reportable. The initial rationale for excluding some goods and services from FBT was that the compliance costs outweighed the equity considerations. In the case of housing, the value to employees is potentially substantial. What’s more, the additional compliance costs of attributing fringe benefits to individual employees are not likely to be disproportionately high, because employers will already generally need these records to calculate their FBT liability, although additional compliance costs may be incurred where employees contest valuations (a concern raised by Fraser Island Retreat Pty Ltd, sub. DR116, pp. 4–5).

However, there are two offsetting considerations. The first is that the process of calculating RFBA reflects the inequities inherent in the FBT system. That is, the reportable amount is the ‘grossed up’ value based on the 47 per cent tax rate, which is an overstatement of the value of non-concessional benefits (in terms of pre-tax income) to employees with incomes below the top marginal tax rate.⁹⁹

The second consideration is that the effect of RFBA on employees is variable. For some employees, there will be no financial implications, but other employees could see their payments reduced or liabilities increased (box 8.1). This variation due to personal circumstances means that it is difficult to compensate employees for the effects of the change. To the extent that governments wish to mitigate the impact of the changes on service providers in remote areas, making remote area housing benefits reportable could complicate that process.

Given these offsetting considerations, the Commission believes that, on balance, there is a case for classifying a revised employer-provided housing concession as an ‘excluded’ benefit.

⁹⁹ However, a further point to consider is that for concessional benefits, the RFBA would be calculated on the reduced taxable amount; assuming a 50 per cent reduction, this means the RFBA would understate the market value and so it might not be overly punitive, although it is a blunt and imperfect approach.

Box 8.1 The impact of making housing reportable varies between employees

The impact on employees of making the provision of housing a reportable fringe benefits amount (RFBA) would vary according to the employees' individual circumstances.

For example, say an employee received employer-provided housing valued at \$10 000 for an income year. If, consistent with the 50 per cent reduction in taxable value, half of this was considered a reportable fringe benefit amount, the grossed-up value reported on the employee's payment summary would be \$9434. The effect of this amount would vary for different benefit payments or obligations, as illustrated in the following table.

<i>Concession or tax obligation</i>	<i>Effect on taxpayer</i>	<i>Cost range (if RFBA = \$9434)</i>
Family tax benefit A	Family tax benefit A payments are reduced depending on family 'adjusted taxable income', with taper rates of up to 30 cents per dollar	Up to \$2830
Family tax benefit B	Family tax benefit B is \$110–158 per fortnight, paid to the secondary income earner at a rate dependent on their income, but the primary earner's income (including RFBA) must be under \$100 000	Up to \$4117
Child support	Adjusted taxable income is used in the calculation of child support payments. Child support obligations could increase by up to 32 per cent of additional income	Up to \$3019
Higher education loan program	RFBA is added to the total repayment income for these (and other study loans), which are repaid at rates of 1 to 10 per cent of total income, depending on income level	Up to \$2195
Superannuation co-contribution	Personal super contributions are partially matched by the government (up to \$500) for people on total incomes (including RFBA) up to a threshold of \$38 564. This matching is tapered by a rate of 3.33 cents for each dollar of income above the threshold.	Up to \$314

As the above examples illustrate, the effects of making housing reportable would likely be most significant for employees who receive relatively high family tax benefit payments, which will depend on their family income and number of children. Some families could see both their family tax benefit A and B payments reduced.

In some cases, an employee's obligations or liabilities could also be affected — for instance, if they have a higher education loan program debt, or are required to pay child support for other children as well.

Sources: ATO (2019a, 2019b); DHS (2019a, 2019b, 2020).

Some additional reporting on FBT returns is required

In changing the remote area employer-provided housing concession, there is also a case for increasing the reporting obligations of employers that use the concession. At present, employers are not required to report the provision of exempt goods and services to the ATO on FBT returns; even where partial concessions are used, the reporting is not detailed enough for the ATO to separate the remote area concessions from other concessions that apply Australia-wide. While this is a feature of the FBT reporting system more broadly, the

relatively high value of these concessions warrants at least some additional reporting to the ATO to enhance its capability to administer the concession and enforce compliance. At a minimum, such reporting should include brief details about the number and location of houses provided when the concession is claimed.

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 better align use of the concession with 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.

The ‘customary’ rule should be removed

Existing rules that require employers to self-assess whether the provision of housing is ‘necessary’ (s. 58ZC(2)(b) of the FBTAA) create confusion and uncertainty about eligibility (PwC, sub. 55, p. 1; KPMG, sub. 70, p. 4). This uncertainty means some employers may claim the concession in circumstances for which it was not intended; meanwhile, others may not claim the concession even when they have a legitimate case, for fear of making a mistake.

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. The rule allows the provision of housing to be deemed ‘necessary’ in industries (such as the mining industry) where it is customary for employers to provide free or subsidised accommodation for their employees.

The ‘customary’ rule lowers compliance costs for some employers (Ernst and Young, sub. DR112, p. 5; Government of Western Australia, sub. DR145, p. 12). It is simpler to establish than the other two legislative tests of whether it is ‘necessary’ for employers to provide housing (which require employers to establish either that there is insufficient suitable alternative accommodation *or* that the nature of the business is such that employees are likely to be frequently required to change their accommodation).

However, the ‘customary’ rule does more than merely lowering compliance costs for particular employers. It 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. This runs counter to the rationale of addressing inequities inherent to the FBT regime.

The ‘customary’ rule also means that access to the concession varies between employers in different industries. It grants an artificial advantage in attracting and retaining staff to employers in those industries that satisfy the rule, enabling them in some cases to offer

housing to employees at lower cost than employers in other industries. This is distortionary and conflicts with the tax system design principle of efficiency (as outlined in chapter 1).

For these reasons, the ‘customary’ rule should be removed. An employer should only be able to establish that it was ‘necessary’ to provide an employee with housing by meeting one of the two remaining legislative tests.

Expanded eligibility for ‘certain regional employers’ should be removed

Eligibility should be tightened in the additional areas where ‘certain regional employers’ can access the existing exemption. Given that the additional areas are more populous towns, the need to provide accommodation for operational reasons is less credible. Also, as with the ‘customary’ rule, expanded eligibility for ‘certain regional employers’ is inconsistent with equitable tax treatment and provides a competitive advantage to these employers, which has a distortionary effect and runs counter to the tax system design principle of efficiency. Provisions in the FBTAA that extend the concession to ‘certain regional employers’ in additional areas should be removed.

Use of the concession could be further tightened in the future

As discussed above, changing from a full exemption to a partial concession and tightening eligibility rules would significantly reduce, but not eliminate, the risk of people misusing the concession in tax reduction strategies and thereby undermining the integrity and efficiency of the income tax system. The Australian Government could further reduce this risk by introducing:

- a cap on the value of the concession
- a more prescriptive test of when there is an operational requirement to provide housing.

A cap would set an upper limit on the fiscal cost of people misusing the concession. It could be set as an individual, per-employee limit on the monetary value of the concession in relation to the housing benefits provided to each employee. Once the cap (for example, \$10 000) was reached for an employee, any additional amounts would not be subject to a reduction in taxable value and the full rate of FBT would apply to the remaining value of the housing fringe benefit provided to that employee.

Introducing a cap would increase compliance costs for employers. Employers would need to track the value of the concession for each employee and apply the cap. They would also need to submit more detailed FBT returns to the ATO, which would include the value of the housing concession for each employee. This would go beyond the modest increase to employers’ reporting obligations suggested above.

A more prescriptive test of when there is an operational requirement to provide housing could give both the ATO and employers greater certainty in distinguishing between appropriate and inappropriate uses of the concession. However, reduced flexibility in

interpretation would risk the test becoming a long and frequently updated ‘shopping list’ of circumstances in which there is an operational requirement to provide housing. This would add to the complexity of the already very complex FBT legislation.

On balance, these additional changes should not be implemented in the short term, as the other changes proposed by the Commission should substantially reduce the incentive and the opportunity to misuse the concession. If, after implementation of these reforms, the ATO had lingering concerns about misuse of the concessions, there would be merit in the Australian Government considering a cap on the FBT remote area housing concessions.

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 four main consequences.

- There would be some increase in the compliance burden of using the concession.
- Tax savings for individuals would decrease, which would reduce use of the concessions (most likely concentrated in areas where the concessions are more heavily used).
- Aggregate tax revenue would increase.
- Some of the cost of delivering public services in the FBT remote area would shift from the Australian Government to State, Territory and local governments (section 8.5).

Compliance costs would increase

Changing from an exemption to a partial concession would increase compliance burdens. It would require employers (who were previously using the housing exemption provisions) to submit FBT returns. Determining the value of housing provided to employees could also be a challenge, especially in very remote areas with thin housing markets. While such cases are likely to be in the minority, a number of participants did raise this concern.

There would also be a minor additional impost if FBT returns were expanded to include brief details about the number and location of houses provided in areas where the concession is claimed. However, this additional cost would be minimal as employers would already need to have this information on hand to ensure they were paying the right amount of tax under the concession.

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. As such the incremental compliance costs to them are unlikely to be substantial.

In any case, there are limits to how much the Government can reduce compliance costs without compromising the integrity of the tax system. 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 likely still exceed the compliance costs; however, even in extreme cases where the compliance costs outweighed the tax savings, some employers could offer higher wages and then rent accommodation to employees at market value instead of providing it as remuneration in kind.

In balancing compliance burdens against tax integrity objectives, the Commission sees merit in the development of methodologies — such as simplified valuation rules or set rates — that could reduce the burden of valuing employer-provided housing where determining a market value would be unduly difficult or onerous. This could be where markets are absent (such as on a remote station or mine site), or where they are sufficiently thin and volatile.

The ATO and Treasury should undertake further analysis and consultation to determine the best approach to valuation prior to the Government incorporating these changes in the FBTAA. In doing so, they will need to strike a balance between reducing compliance burdens and meeting the tax neutrality objectives of the concession.

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 tax savings at the individual level, 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.

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 \$150–195 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 and payroll 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 and payroll tax; this impost 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 1080 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 were put forward by participants as the underlying reason for use of the concessions. For instance, the Chamber of Minerals and Energy of Western Australia (CME) said:

... 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. (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 that could create an economic distortion between industries in remote areas.

Employment and regional effects are likely to be small overall

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 an estimated 1080 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 CME submitted that:

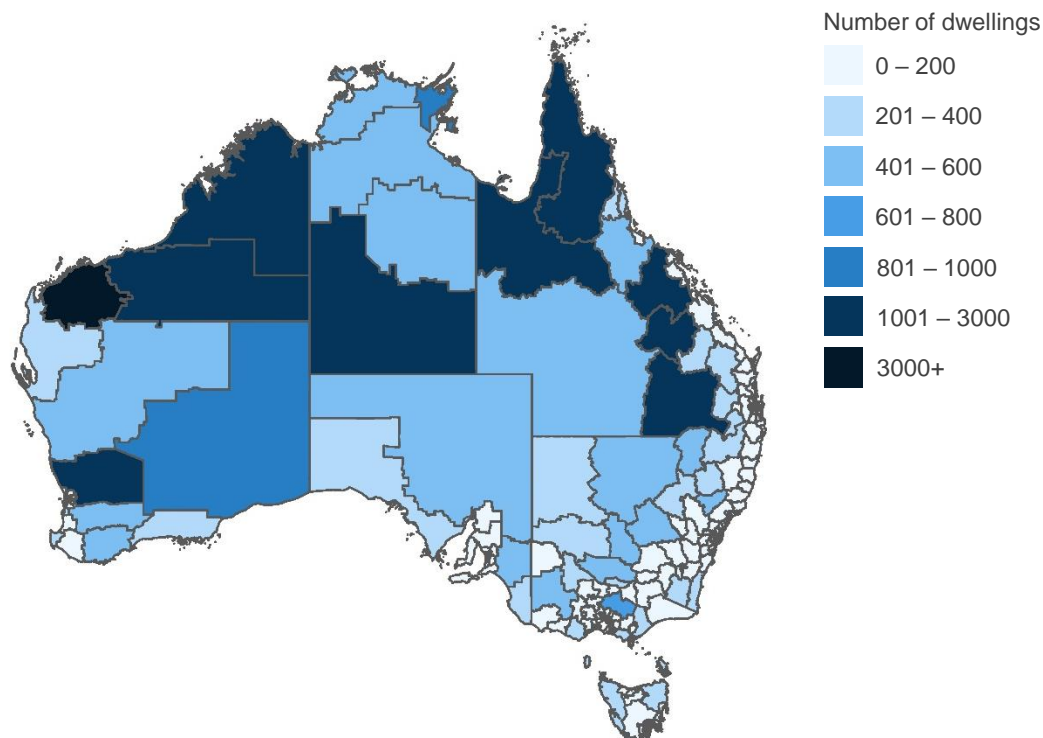
Removing exemptions or reducing the value of FBT concessions ... is likely to have material financial consequences on current projects and FID [final investment decision] of future investments. With a shift to export-led growth, large cost increases arising from changes in FBT arrangements may result 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.

These effects are generally likely to be small. In areas where employer-provided housing is most prevalent — such as the Pilbara and Kimberley regions of Western Australia, and the Bowen Basin and Central Highlands regions of Queensland (figure 8.3) — 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 \$30–50 million per year for the Pilbara (appendix C)) are relatively small in comparison with economic output.

Figure 8.3 Employer-provided housing (as usual place of residence) is concentrated in certain more-remote areas^a
Employer-provided housing in the FBT remote area, 2016



^a Estimates include the number of employer-provided dwellings in the 2016 ABS census, adjusted to exclude all 'non-private' dwellings — those dwellings that the ABS has determined are used for temporary accommodation or are of a communal type.

Source: Commission calculations based on ABS (*Census of Population and Housing Microdata, 2016*, cat. no. 2037.0.30.001).

Overall, it is unlikely that changes to the existing exemption will have significant impacts on the viability of resource projects in mining regions. Indeed, changes in the economic and employment levels of these regions are much more significantly affected by commodity price volatility. While they may be modest, the shifts in the location of employment and activity prompted by changes to FBT should not be seen through a negative lens as these shifts will typically *promote* efficiency and overall community wellbeing.

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:

- replace the exemption for employer-provided housing (section 58ZC) with 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)).

The Australian Government should direct the Australian Taxation Office to collect data on use of the concession. To limit compliance burdens, the Australian Government should develop simplified valuation methodologies for employer-provided housing.

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 (including through an employer). If employees are able to secure their own housing, such assistance is substitutable with wage income.

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, p. 3) argued that this would ‘greatly assist in easing confusion’ and ‘remove inconsistency’, and KPMG (sub. 70, p. 1) wrote that it would ‘meet the requirements of equity, efficiency and simplicity’.

Under the existing arrangements, housing in a given location can be taxed differently depending on how it is provided or sourced, and on whether it meets eligibility criteria such as the ‘customary’ rule; that is, equivalent housing could attract an FBT exemption, a partial concession, or no concession. The retention or expansion of these concessions on employee-sourced housing to create a ‘level playing field’ with employer-provided housing would be inconsistent with the principle of improving tax neutrality. The tax concessions for

employee-sourced remote area housing reduce tax neutrality between wage and non-wage remuneration (rather than improve it), and mean that less revenue is available to fund public goods and services in the rest of the economy.

The Commission recommends that the partial concessions on employee-sourced housing be removed. 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. Accordingly, if the treatment of employer-provided housing is made more tax-neutral and eligibility is tightened to situations where there is an operational need to provide housing by removing the ‘customary’ criterion, the removal of partial concessions on employee-sourced housing is unlikely to cause significant substitution towards employer-provided housing.

Abolishing the partial concessions on employee-sourced housing would cancel the tax savings to those currently receiving them, and would likely result in a modest increase in aggregate tax revenue. As discussed in chapter 7 and appendix C, the limitations of the current FBT reporting requirements mean that it is not possible to precisely gauge the utilisation of concessions on employee-sourced housing. However, the combination of anecdotal evidence, material from submissions and responses to the Commission’s questionnaire on FBT use suggests that while these partial concessions are used less frequently than the exemption for employer-provided housing, their use could be more prevalent in sectors such as health and community services. In some circumstances their removal could materially affect the budgets of service providers. Nevertheless, the removal of these concessions would not be expected to have broader material economic or employment effects in remote areas of Australia.

RECOMMENDATION 8.2 REMOVE THE CONCESSIONS FOR EMPLOYEE-SOURCED HOUSING

The Australian Government should amend the *Fringe Benefits Tax Assessment Act 1986* (Cth) to remove the concessions on employee-sourced housing (section 60 and Divisions 14A and 14B).

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 (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 FBTAA 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.

Employers would self-assess whether there is an operational requirement for them to provide the residential fuel. There should be guidance, either in the legislation or from the ATO, about the factors employers should consider in assessing whether there is an operational requirement. These factors might include, for example, whether or not there is a private supplier of residential fuel or whether utility services are separately metered (which would allow employees to receive a separate utility bill from their employers). Such facts would generally be straightforward for employers to confirm, so compliance costs should 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 \$19 million per year (about \$1000 per household per year) (appendix C). Limiting the concession to those with an operational requirement would raise less than \$19 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 4 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 and telecommunications, which are omitted under the current regime.¹⁰⁰ 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 forgone 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 provided meals that are not ‘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.

Employers would self-assess whether there is an operational requirement for them to provide the benefit. There should be guidance, either in the legislation or from the ATO, about the factors employers should consider in assessing whether there is an operational requirement. These factors might include, for example, whether food is available for purchase within a reasonable commuting distance of the workplace or the employee’s accommodation. The provision allowing the concession to apply to meals consumed off-site could also be

¹⁰⁰ For example: RCCIWA, sub. 43, p. 3; City of Kalgoorlie-Boulder, sub. 52, p. 13; NALSPA, sub. 54, p. 15; PwC, sub. 55, pp. 9–10; Isaac Regional Council, sub. 63, p. 2.

removed, as it is inconsistent with the premise that there should be an operational requirement for the employer to provide meals.

Several other reform options were considered by the Commission but deemed 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. That said, any future review of the broader suite of FBT concessions for the provision of meals could consider whether there is scope to develop a more streamlined and consistent set of arrangements for meals for all employers.

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, efficient resource allocation requires 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 estimate 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.

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 that apply to FBT remote area concessions are a comparatively simple, objective and intuitive way of approximating those circumstances where an employer needs to provide a good or service for operational reasons (such as remote area 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. 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 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.

Discarding boundaries altogether would have the dual advantages of mitigating constitutional validity risks (chapter 1) and enabling access to the concessions wherever there is an operational requirement to provide the relevant goods or services. However, access to the concession would then only be restricted by the ‘necessary’ condition and the associated legislative tests: that is, that there is insufficient suitable alternative accommodation, *or* that the nature of the employer’s business is such that employees may need to frequently change their places of residence. Because these tests involve subjective self-assessment by employers, there is a risk that concession usage could expand markedly in the absence of boundaries. It is unlikely that compliance could be adequately enforced without boundaries, particularly given the limited information currently reported to the ATO on taxable fringe benefits.

On balance, in view of the risks associated with removing the boundaries, the Commission considers that boundaries should be retained — at least in the medium term. Nonetheless, the

feasibility of discarding boundaries could be revisited in the future if the Government tightens eligibility for the concessions and introduces additional reporting requirements for the employer-provided housing concession, or undertakes wholesale reform of the FBT system.

Geographical boundaries should be updated to reflect current populations and decoupled from the ZTO zones

The boundaries should be updated to reflect current populations

That said, the current boundaries are outdated and overly complex. They are based on measures of population from the 1981 census and road distances in 1986. Since then, population growth has meant that some areas once classified as remote for FBT purposes are no longer remote, while others with population decline have become remote. The reliance on a 1986 road map also adds to the complexity of administering and complying with the concessions.

The minimalist option is to update the list of eligible urban areas to reflect 2016 census populations. Instead of relying on 1986 road maps, road distances from population centres could be estimated at the beginning of each FBT year using modern mapping software (such as Google Maps or Apple Maps), which would also make it more convenient for employers to ensure compliance with the rules.

Another option for updating the boundaries is to replace them with boundaries based on the ABS remoteness areas. However, this would be disruptive to employers without clearly being better targeted than the current methodology. Basing the boundaries on *very remote* and *remote* areas would exclude a number of isolated areas in *outer regional* Australia where employers could credibly claim to have operational requirements to provide their employees with benefits such as housing. On the other hand, including *outer regional* Australia in the boundaries would expand access to the concessions in more populous centres, such as Townsville and Cairns.

On balance, the minimalist option of updating the current boundaries, outlined above, is preferable to replacing them with boundaries based on the ABS remoteness areas.

The boundaries should be periodically updated

Periodically updating the boundaries to reflect population changes would align with the view that boundaries 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 occur. Updating the boundaries every five years could create investment uncertainty. In response to this concern, the CME 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 on the basis of one census could result in eligible urban areas oscillating in and out of the FBT remote areas. For example, using 2016 census figures and current thresholds, 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 (ABS 2019a).

The list of eligible urban areas should be periodically updated using a ‘two strikes’ system. That is, a community should only fall in or out of the list of eligible urban areas after two consecutive censuses showing that it has crossed the population threshold. This approach would provide some stability for business planning purposes and minimise undue disruptions for employers and their employees.

The Australian Government should preannounce any resulting changes to boundaries, which should then become effective following an appropriate transition period. The trade-off is that it would take five years longer for communities with declining populations and communities with increasing populations to fall in or out of the boundaries, respectively.

The boundaries should be decoupled from the ZTO zones

In addition to updating populations, the boundaries should be revised by removing 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 zone tax offset (ZTO) 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 reduce unnecessary complexity. For the same reason, the zone-based differences should not be replaced with differences based on ABS remoteness areas.

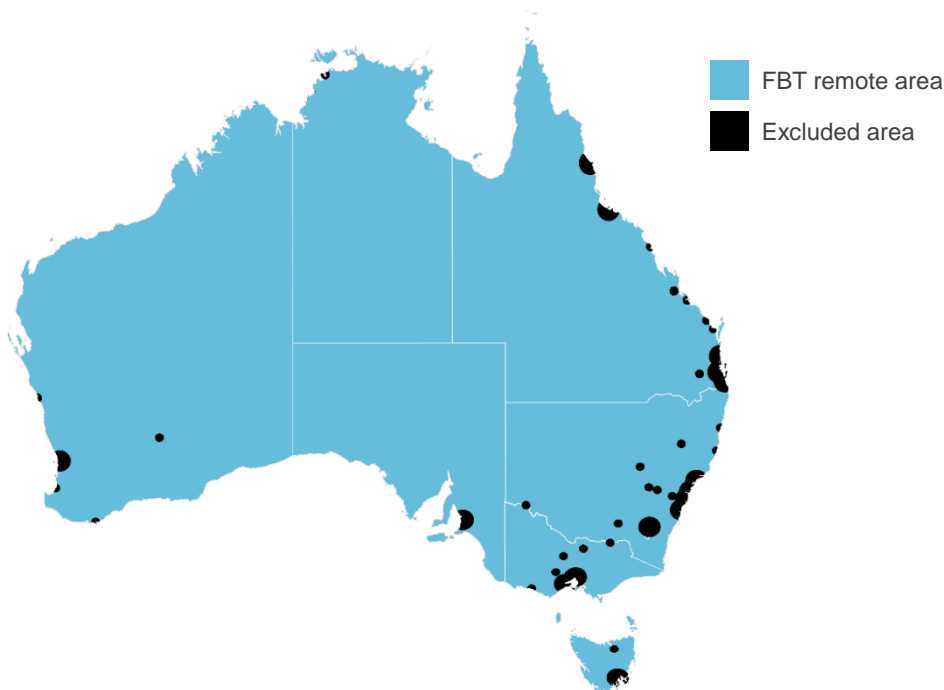
Population thresholds should be aligned at the higher level currently in place for zone areas: 40 km from communities with populations of 28 000 or more, and 100 km from communities with populations of 130 000 or more (figure 8.4). Aligning the thresholds at these levels is preferable because:

- the goal is to reduce unnecessary complexity in the boundaries and not to exclude more communities from potential eligibility for the FBT remote area concessions; the alternative of uniformly applying the current non-zone threshold would lead to remote towns with populations between 14 000 and 27 999, such as Alice Springs and Mount Isa, being excluded.
- if the concessions are tightened as recommended, the boundaries would become relatively less critical in regulating their use.

Updating the boundaries (as outlined), and removing the expanded eligibility for certain regional employers, would reduce the number of employer-provided dwellings provided as usual places of residence in the FBT remote area by about 1420, or 3.5 per cent (Commission calculations based on ABS *Microdata: Census of Population and Housing, 2016*, Cat.

no. 2037.0.30.001). On a pro-rata basis, this would reduce the cost to government of the current exemption for employer-provided housing (in terms of forgone FBT revenue) by about \$10–14 million per year.

Figure 8.4 Revised boundaries for FBT remote area concessions^a
Updating to 2016 populations and aligning thresholds for zone and non-zone areas.



^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.

RECOMMENDATION 8.4 REVISE BOUNDARIES FOR FBT REMOTE AREA CONCESSIONS

The Australian Government should revise the geographic boundaries for the fringe benefits tax remote area concessions by:

- updating the boundaries to reflect populations as at the 2016 census and contemporary road infrastructure
- aligning population thresholds at 40 km from communities with populations of 28 000 or more and 100 km from communities with populations of 130 000 or more.

It should periodically update boundaries to reflect changing populations, giving sufficient notice to minimise disruption for affected employers.

8.5 Implementation issues

The Commission has proposed a number of substantial changes to the design of FBT remote area concessions; these are summarised in table 8.2. (As discussed in chapter 7, the Commission is not proposing changes to the existing exemptions for FIFO arrangements.) This section considers issues associated with implementing these proposed changes, including transitional arrangements and additional measures to mitigate adverse impacts on services.

Transitional arrangements

To enable a smooth transition to the proposed arrangements, the Australian Government should announce the changes to the FBT remote area concessions in advance of their intended start date.

This approach should provide sufficient time for employers and tax advisers to familiarise themselves with the new rules and adjust their business affairs accordingly. A number of participants noted that transition arrangements would be necessary because employers have made decisions on the basis of current arrangements.¹⁰¹ For example, remote area holiday travel entitlements have been built into enterprise agreements, and so employers would still be obliged to provide them in the absence of the concession. Similarly, employers may have entered into lease contracts based on the current tax concessions.

Announcing the changes in advance would also give governments time to implement any measures required to ensure continuity of services, in cases where those services are adversely affected by the changes (discussed below).

Announcing the changes in advance would be much less administratively complex than the main alternative of grandfathering arrangements, which was suggested by some participants. For instance, the lack of reporting on current use of the concession would make it difficult to verify who would be eligible for any grandfathering arrangements.

The main downside of delaying the start date is that it would allow the existing concessions to be used in the interim (including by new users), even where a transition is not warranted.

Given the above considerations, a period of about two years should be allowed before the changes to the FBT remote area concessions take effect.

RECOMMENDATION 8.5 ANNOUNCE CHANGES IN ADVANCE

The Australian Government should introduce legislative changes to the fringe benefits tax remote area concessions with a delayed start date (for example, two years from when they are legislated).

¹⁰¹ For example: Mia Davies, sub. DR106; Stephen O'Flynn, sub. DR107; KPMG, sub. DR133; BDO Australia, sub. DR141; Government of Western Australia, sub. DR145; AMEC, sub. DR159; RDA Tasmania, sub. DR178; Tasmanian Government, sub. DR188.

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)). • Develop valuation methodologies for remote area housing. • Collect data on use of the concession.
Employee-sourced housing	Partial concessions on other forms of housing assistance in designated remote areas (FBTAA, s. 60 and Divisions 14A, 14B)	<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.
Boundaries for the concessions	Based on 1981 populations and 1986 road distances. Different population thresholds apply in ZTO zone and non-zone areas.	<ul style="list-style-type: none"> • Update the boundaries to reflect 2016 census populations and contemporary road infrastructure. • Align population thresholds at 40 km from communities with populations of 28 000 or more and 100 km from communities with populations of 130 000 or more (as currently in the ZTO zones). • Periodically update the boundaries using a 'two-strikes' rule to determine whether communities fall in or out of eligible areas.

Further measures to mitigate adverse impacts on services

As with almost any change to the tax system, the proposed changes to the FBT remote area concessions can be expected to affect employers, employees and communities (including through direct financial impacts, compliance costs and transitional costs).

Is there a case for compensation?

The case for financial compensation to mitigate adverse effects of the proposed reforms is weak. The reforms do not levy a disproportionate tax liability on businesses in remote areas — they remove an overly generous concession and, in turn, better align the tax obligations of remote area employers with those in the rest of Australia. Overall, this makes the tax system fairer.

There is a possible exception for service delivery organisations. These organisations have an obligation to deliver public services — such as health services, education, policing, and general municipal services like waste collection — to people living in the FBT remote areas. Reducing tax savings from the concession and removing the additional areas for ‘certain regional employers’ increases the cost of providing these services, with State, Territory and local governments left to make up the difference. If they fail to do so, this could affect the level and quality of public services that are delivered.

The financial impact on service delivery agencies

Several stakeholders estimated their additional FBT liability as a result of the proposed changes. For example:

The Government of WA also uses current FBT concessions to assist providing housing for staff in remote areas. Reverting to 50 per cent concession for employer-provided housing would directly worsen the State’s finances by tens of millions of dollars. (Government of Western Australia, sub. DR145, p. 10)

With the current number of houses provided by the Shire, the cost of providing housing would increase by a minimum of \$490,464 per annum, and possibly higher ... If services were cut to meet this cost - this is equal to almost half of the municipal funds taken to run the Newman recreation centre per annum ... (Shire of East Pilbara, sub. DR155, p. 4)

If the Productivity Commission’s recommendations are implemented, the school authority would be paying an additional FBT of around \$90,000. Schools in these areas are unable to charge higher fees to cover these costs. (QCEC, sub. DR117, p. 3)

Census data provide an aggregate estimate of the financial impact on service providers of the proposed changes to employer-provided housing (as a usual place of residence). The data have some limitations, as they only record what ABS industry classification a person is in and not whether they are in the business of providing public services (appendix C). Nonetheless, three industry divisions are likely to have a majority of employees involved in service provision: public administration and safety, education and training, and health care

and social assistance. The Commission estimates that the ‘morning after’ increase in FBT on employer-provided housing as a usual place of residence for these three industry divisions could be between about \$45 million and \$60 million (appendix C). In practice, employer behaviour would change in response to the new policy in ways that may lessen the financial impact on these sectors.

Capacity of service delivery agencies to manage these impacts

Service delivery agencies’ capacity to manage the impacts of the proposed changes is likely to vary. Larger Australian, State and Territory government agencies will have some capacity to raise revenue to replace the (implicit) funding provided by the concessions. These agencies may also be able to reallocate budgets, spreading the financial impacts across other areas of expenditure, to lessen the effect on service levels in remote areas. However, budget reallocations might simply mean that service delivery in other areas is negatively affected. Either of these responses would shift costs from the Australian Government to State and Territory governments.

Local governments’ ability to mitigate the impact of our recommendations on public services could be even more confined, for several reasons.

- The financial impacts are concentrated among remote local government areas (LGAs) (with relatively small populations), and the size of the impacts is often material compared with these local governments’ overall budgets. For example, the Shire of Ashburton (sub. DR170) estimates that the increase in their FBT liability could be about \$3.5 million, against total revenue of \$56 million in 2018-19 (Shire of Ashburton 2019).
- Local governments are much more budget-constrained than other public organisations, and have less revenue-raising capacity to address the shortfall. In some remote areas (such as the Shire of Halls Creek in Western Australia or Carpentaria Shire in Queensland), land rates — the main revenue-raising tool available to local government areas (LGAs) — only make up about 15 to 20 per cent of total revenue (Northern Territory Government 2019b; QDLGRMA 2018; WADLGSCI 2019). For other LGAs that cover remote pastoral stations or Indigenous communities, land rates make up a negligible amount of revenue (less than 5 per cent). Following consultation with its members, WALGA wrote that the changes would require some local governments to ‘increase rates by 6–7%’ (sub. DR124, p. 9).
- It is unclear how quickly other funding measures that are designed to account for higher costs of service delivery in remote areas would adjust in practice (box 8.2).

Given the Australian Government’s responsibility for funding service provision in remote areas (chapter 3), there is a case for it to consider providing some of the assistance it currently provides (non-transparently) through the FBT concessions in other ways.

Box 8.2 HFE could increase funding to affected governments

The Commonwealth Grants Commission (CGC) takes account of the cost of delivering services in remote areas when allocating goods and services tax (GST) revenue (chapter 3). Remoteness is also taken into account when grants commissions in each State and the Northern Territory recommend the distribution of funding under the Financial Assistance Grant program to local governments. Over time, the higher costs resulting from increased FBT liabilities could be reflected in the data used to calculate remoteness loadings, resulting in larger financial allocations to affected areas.

However, this would be an unsatisfactory mechanism to replace Australian Government funding of service delivery agencies in affected areas. It would not counteract cost-shifting from the Australian Government to other levels of government; it would simply result in the existing pool of grant money flowing from less remote government areas (either at a state or local level) to those that are more remote.

The extent of any adjustment is also unclear. For example, when allocating GST revenue, the CGC uses data from schools and police services to estimate the impact of remoteness on service delivery costs, but these data may not accurately reflect service delivery costs for other agencies. Indeed, because of this uncertainty, the remoteness loading that applies to all services except police and schooling is discounted — reducing any adjustments that would have taken place.

Source: PC (2018).

Options for adjusting the funding of service delivery agencies

The Commission investigated several mechanisms by which the Australian Government could adjust the funding of service delivery agencies. These included providing financial assistance to:

- State and Territory governments, through the Intergovernmental Agreement on Federal Financial Relations (IGAFFR); the agreement covers payments for specific purposes (such as Specific Purpose Payments and National Partnership Payments), along with general revenue assistance
- State and Territory governments, by topping up the goods and services tax (GST) pool or by changing the way remoteness loadings are calculated
- local governments, either by topping up the Financial Assistance Grant program or by making direct grants to affected LGAs
- service delivery agencies, by increasing the regional loadings that each student in a remote area attracts (for schools) and that apply to most hospital activities in remote areas
- service delivery agencies, using a carve-out so that these agencies continue to receive the existing FBT remote area concessions.

Each of these approaches has its benefits and drawbacks (table 8.3). On balance, general revenue assistance paid to State and Territory governments would be a comparatively effective way for the Australian Government to adjust the funding of service delivery agencies.

- General revenue assistance is untied, and therefore **flexible** enough for State and Territory governments to direct it to those services or LGAs that are most affected (in contrast to options such as topping-up of the GST pool or Financial Assistance Grants).
- General revenue assistance can be **targeted** at those State and Territory governments most affected by the changes to FBT remote area concessions and proportionate to the expected size and nature of impacts. State and Territory governments are also in a better position to identify affected services and local governments, and directing revenue to them encourages decisions about public goods and services to be made by a level of government that is as close to those who are affected as practical (which could help make services more responsive to users and hold governments to account).
- An agreement to provide general revenue assistance can be made **simple**, short and easy to understand, which helps to keep negotiation costs low (in contrast to options such as specific purpose payments, which would be resource-intensive to negotiate and monitor).
- An agreement can be made **transparent** by having a single and clearly stated purpose (in contrast to carve-outs). This helps to avoid the confusion that can result from using a single instrument to pursue multiple objectives: for example, using the schools and hospitals funding formulae to compensate for Australian Government decisions.

There is precedent for the Australian Government to make untied payments through the IGAFRR as compensation for its policy decisions. The Australian Government currently makes payments to Western Australia to compensate for the loss of royalty revenue resulting from the removal of the exemption of condensate from crude oil excise (\$34 million in 2018-19) (Treasury 2019a, pp. 82–83). It also makes GST top-up payments to Western Australia and the Northern Territory (\$434 million in 2018-19) to ensure that no State has a GST relativity below 0.7 (or below 4.66 for the Northern Territory).

FINDING 8.1

The Commission's proposed reforms to the fringe benefits tax remote area concessions would shift some of the cost of funding public services in remote areas from the Australian Government to State, Territory and local governments. This could affect the level and quality of public services that are delivered.

General revenue assistance paid to State and Territory governments would be an effective way for the Australian Government to adjust the funding of service delivery agencies. Such assistance can be made simple and transparent while granting State and Territory governments the flexibility to direct funds to those services or local government areas that are most affected.

Table 8.3 Options for the Australian Government to mitigate impacts on service delivery

Assistance to State, Territory and local governments

	<i>Benefits</i>	<i>Drawbacks</i>
Specific purpose payments	<ul style="list-style-type: none"> • Agreements specify objectives, roles and responsibilities, outcomes and outputs, and performance monitoring • Highly transparent • Some accountability for outcomes achieved 	<ul style="list-style-type: none"> • Typically made for very large amounts of funding • Resource intensive to negotiate and monitor • May constrain how money is to be spent
General revenue assistance	<ul style="list-style-type: none"> • Can be targeted at affected governments • Funding is untied and flexible • Simple, easy to understand, transparent and less costly to negotiate • Precedents exist for using general assistance to compensate for Australian Government decisions • State and Territory governments are in a better position to allocate funds than the Australian Government 	<ul style="list-style-type: none"> • No guarantee that assistance flows to those affected
Top-up of GST pool	<ul style="list-style-type: none"> • Funding is untied and flexible 	<ul style="list-style-type: none"> • Funds would be distributed to all State and Territory governments, not just those affected
Increasing the remoteness loading for the distribution of GST	<ul style="list-style-type: none"> • Directs untied funds to those states and territories with more remote populations 	<ul style="list-style-type: none"> • Comes at the expense of less remote states and territories • Compromises the independence of the Commonwealth Grants Commission
Top-up through the Financial Assistance Grant program	<ul style="list-style-type: none"> • Funds flow to local councils, which have the fewest tools for raising own-source revenue 	<ul style="list-style-type: none"> • Funds would be distributed to all local governments, not just those affected • The minimum grant principle means that some funds would flow to the wealthiest local governments (as discussed in chapter 3)
Direct grants to LGAs	<ul style="list-style-type: none"> • Funding is untied and flexible • Funds flow directly to affected councils 	<ul style="list-style-type: none"> • Would not assist State and Territory government agencies • Difficult to calculate or negotiate funding amount for each council
Increasing school and hospital remoteness loadings	<ul style="list-style-type: none"> • Puts money directly in hands of service delivery agencies • Targets those hospitals and schools that are in remote areas 	<ul style="list-style-type: none"> • Very complex and non-transparent • Compromises the independence of the Independent Hospital Pricing Authority • Only compensates schools and hospitals
Carve-out for service delivery agencies	<ul style="list-style-type: none"> • Potentially well-targeted to service delivery agencies • A legislative carve-out provides more certainty for affected agencies 	<ul style="list-style-type: none"> • Adds to complexity of the tax system • Less transparent than direct government outlays, subject to little public scrutiny and review

APPENDICES

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. A draft report was released on 4 September 2019, and further public submissions were invited.

In total, 199 submissions (table A 1) and 24 brief comments were received and placed on the study 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 involved Commissioners and staff travelling to remote locations around the country to meet with local communities. A list of participants is provided in table A 2.

The Commission would like to thank all those who contributed to this study.

Table A.1 Submissions received

<i>Participants</i>	<i>Submission number</i>
Aged Care Workforce Remote Accord	DR135
AgForce Queensland Farmers	94, DR154
Agribusiness Australia	46
Ainsworth, Malcolm	10
AJ & PA McBride Ltd	61
Association of Mining and Exploration Companies (AMEC)	83, DR159
Aurizon	DR194 *#
Australian Petroleum Production and Exploration Association (APPEA)	DR151
Australian Salary Packaging Industry Association (ASPIA)	DR127
Baird, Janice	DR103
Balonne Shire Council	28
BDO Australia	DR141
Boston, Paquita	8
Broome International Airport	DR123
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 Australian Aboriginal Congress Aboriginal Corporation	DR152
Central Land Council	35
Chamber of Commerce Northern Territory	DR136
Chamber of Minerals and Energy of Western Australia (CME)	95, DR186
Chartered Accountants Australia and New Zealand (CAANZ)	73, DR167
City of Albany	81
City of Busselton	88
City of Kalgoorlie-Boulder	52, DR115
City of Karratha	DR166
Cloncurry Shire Council	45
Cork, Joanne	DR139
Corporate Tax Association (CTA)	DR153
CPA Australia	72
CQUniversity Australia	DR109

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Table A.1 (continued)

<i>Participants</i>	<i>Submission number</i>
Davies, Mia	DR106
Department of Defence	DR196 #*
Department of Education	DR157 *
Department of Education (SA)	DR198
Department of Home Affairs	44 *
Department of Primary Industries and Regional Development (WA)	82
Di Biase, Costantino	DR164
Douglas, Robert	4
Dreise, Tony	71
East Kimberley Chamber of Commerce and Industry	DR190
Ernie and Kylie Camp	64
Ernst & Young	DR112
Fardell, Nicholas	97
Fitchat, Peter	DR150 #
Flinders Council	DR165 #
Fortescue Metals Group Ltd	DR162
Fraser Island Retreat Pty Ltd	DR116
Fullarton, Alexander	1 #, DR102
Fullarton, Julie	12
Fyson, Chris	53
Galvins Plumbing Supplies	30
Gerhardy, Saskia	7
Goldfields Voluntary Regional Organisation of Councils (GVROC)	41, DR113
Gosling, Luke	96
Government of Western Australia	DR145 #
Green, Graham	DR122
Hamilton Island Enterprises	18 #
Haslam McKenzie, Fiona	89
Hebbard, Tricia	DR161
Hits Radio	11
Holden, Antony	DR100
Howard, Jan	DR118
Indigenous Reference Group to the Ministerial Forum on Northern Development	87
Isaac Regional Council	63, DR184
Isolated Children's Parents' Association of Australia (ICPAA)	74, DR134
Ives, Carissa	DR110
Juniper, John	48

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Table A.1 (continued)

<i>Participants</i>	<i>Submission number</i>
Kalgoorlie Boulder Chamber of Commerce and Industry	58
Kerr, Simon	3
Kimberley Regional Group	DR158
King Island Chamber of Commerce	21
King Island Council	75
King Island Council & Waverley Station	DR193 #
Kollakkombil, Renjith	DR168
KPMG	70, DR133
Landry, Michelle	16
Lane, Gail	5
Lavery, KM	DR99
Leader of the Opposition Northern Territory	DR148 #
Livestock SA	DR149
Livingstone Shire Council	29
Local Government Association of the Northern Territory (LGANT)	66
Local Government Association of Queensland (LGAQ)	90, DR182 #
Mackay, Andrew	DR 140, DR156
Mander, Tim	DR126
Mareeba Shire Council	13
Marshall, Madison	51
McGrane, Victoria	56
McClement, John	DR111
McLaren, John	14 #
Mcleod, Rory	2
McLaughlin, Anna	DR104
Minerals Council of Australia (MCA)	76, DR173
Ministry of Health NSW	DR179 *
Moren, Shannon	49
Morris, Faith	DR146
Mount Isa to Townsville Economic Development Zone (MITEZ)	67
Murray, Tonya	50
Murweh Shire Council	27
National Aboriginal and Torres Strait Islander Housing Authority (NATSIHA)	DR137
National Automotive Leasing and Salary Packaging Association (NALSPA)	54, DR171
National Farmers' Federation (NFF)	85, DR191

^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.1 (continued)

<i>Participants</i>	<i>Submission number</i>
Newmont Goldcorp Australia	78
North West Queensland Regional Organisation of Councils (NWQROC)	33, DR147
Northern Star Resources Limited	DR120
Northern Territory Government	60, DR119 #, DR199 #
Northern Territory Police Association (NTPA)	DR129
Norrie, Ross	DR163
O'Donnell, Kyran	DR144
O'Flynn, Stephen	DR107
O'Neill, Megan	DR195
Optitax	77
Page Research Centre	DR105
Pastalatzis, Nick	92
Pastoralists' Association of West Darling (PAWD)	DR183
Peel Valentine Whitehead (PVW) Partners	59, DR169
People and Culture Office	15
Portch, Cheryl	39 #
Police Federation of Australia (PFA)	DR175
Potter, James	25
PricewaterhouseCoopers (PwC)	55, DR138
Queensland Catholic Education Commission (QCEC)	DR117
Queensland Education Department	93 *
Queensland Government	DR197 #
Queensland Resources Council (QRC)	31
Queensland Police Union (QPU)	DR172
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) Orana	DR181
Regional Development Australia (RDA) Pilbara	DR131
Regional Development Australia (RDA) Tasmania	69, DR178
Rintoul, Allan	32
Rockhampton Regional Council	57
Royal Flying Doctor Service QLD	DR125 *
Shire of Broome	DR176
Shire of Carnarvon	26 #

(continued next page)

^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.1 (continued)

<i>Participants</i>	<i>Submission number</i>
Shire of Coolgardie	38
Shire of East Pilbara	DR155
Shire of Flinders	91
Snowy Hydro Limited	DR177
South Australian Police (SAPOL)	DR192
South West Regional Economic Development (SWRED)	86 #, DR187
Spencer, Mark	DR114
Squid, D	DR142
Tasmanian Government	24, DR188
Taylor, Trevor	DR132
Thompson, Keith	6
Thompson, Lisa	9
Thorpe, Jak	DR160
Torres Shire Council	DR189 #
Town of Port Hedland, Shire of East Pilbara, Shire of Ashburton	DR170 #
Townsville Chamber of Commerce	37
Townsville City Council	68, DR185
Traeger, Paul	DR130
Trigg, Katherine	17
UnitingCare Queensland	DR180
Weipa Town Authority (WTA)	DR121
Western Australia Party	84
Western Australian Local Government Association (WALGA)	79, DR124
Western Australian Police Union (WAPU)	DR174
Wilson, Rick	DR143
Wilton, James	DR128
Whitsunday Regional Council	36
Woodhouse, Adam	DR101
Yeoh, Daren	DR108
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

Attorney-General's Department (Australian Government)
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 Social Services
Department of the Prime Minister and Cabinet
Minerals Council of Australia
National Farmers' Federation
Regional Australia Institute
The Treasury

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 Primary Industries and Regions (SA)
Department of State Development, Manufacturing, Infrastructure and Planning (QLD)
Department of the Chief Minister (NT)
Department of Trade, Business and Innovation
Department of Treasury and Finance (NT)
Department of Treasury and Finance (SA)
Department of Treasury and Finance (TAS)
Local Government Association of Queensland
McLaren, John Dr (Tasmanian School of Business and Economics)
National Automotive Leasing and Salary Packaging Association (NALSPA)
National Indigenous Affairs Agency
NSW Treasury
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 of 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

Brisbane — 16 October 2019

Queensland Resources Council
AgForce Queensland
UnitingCare Queensland

Brisbane — 17 October 2019

Queensland Catholic Education Commission
Chamber of Commerce and Industry
Queensland Police Union
Queensland Treasury

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

(continued next page)

Table A.2 (continued)

Participants

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

Northern Territory

Darwin — 29 April 2019

Defence Families Australia

Northern Territory Council of Social Services

Tremblay, Pascal Dr (Charles Darwin University)

Industry Roundtable (Darwin) — 29 April 2019

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

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

Darwin — 23 October 2019

Department of Treasury and Finance (NT)

Darwin — 24 October 2019

Local Government Association Northern Territory
Northern Territory Council of Social 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

(continued next page)

Table A.2 (continued)

Participants

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)
Pastoralists and Graziers Association of Western Australia
Rio Tinto

Perth — 14 October 2019

Department of Primary Industries and Regional Development (WA)
Woodside Energy

Perth — 15 October 2019

Western Australian Local Government Association
Haslam McKenzie, Fiona (University of WA)

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 — 22 May 2019

Grattan Institute

Melbourne — 12 July 2019

National Automotive Leasing and Salary Packaging Association (NALSPA)

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, outlined in chapter 2 and applied 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, this appendix:

- explains the broad approach adopted by the Commission, including the 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)
- takes a closer look at the cost of living in Darwin — the only Australian capital city in which residents are eligible for the ZTO or the RAA — and in the Northern Territory (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.

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.¹⁰² 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 have compared living costs in the eligible zones or remote areas with living costs in the rest of Australia, 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.¹⁰³ 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. In assessing the difference in overall cost of living between remote and non-remote areas, the Commission has relied most heavily on regional price indexes compiled by the Western Australian and Queensland governments. It has augmented the results of these 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

¹⁰² 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 difficulty of measuring these factors and the value householders place on them means that they are typically not included in statistical indexes of living standards (ABS 2019e). A cost of living index would also 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 in order to maintain the same standard of living. Substitution effects, and the value of intangible goods and services, need to be accounted for separately where they are sufficiently relevant to the policy issues at hand.

¹⁰³ 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 related to regional airfares, food, freight costs, fuel, utilities (water and electricity) and insurance.

The results of the Commission's analysis are reported using both the taxation zones¹⁰⁴ and the 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 CPI data	Inflation in Darwin and other capital cities
ABS Household Expenditure Survey data	Household expenditure patterns
ACCC petrol price data	Petrol prices, including the difference between regional and metropolitan prices
Australian Automobile Association Transport Affordability Index, September 2019	Transport costs in Australian capital cities and select regional centres
Bureau of Infrastructure, Transport and Regional Economics data and analysis of grocery prices	Grocery prices across Australia
CHOICE 2017 grocery price survey data	Grocery prices in regional and metropolitan supermarkets
CoreLogic IntelliVal Automated Valuation Model data	Median house prices and rent by remoteness area
Department of Defence rent data	Rent paid by the Department of Defence for housing in different locations across Australia
Government of Western Australia 2019 Regional Price Index	Consumer prices in Western Australia
Household, Income and Labour Dynamics in Australia Survey	Housing costs and commute times
MyFuel NT	Fuel prices in the Northern Territory
Northern Territory Government Grocery Price Survey June 2012	Grocery prices in the Northern Territory
Northern Territory Government Market Basket Survey 2017	Food prices in different parts of the Northern Territory
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
Phillips et al. (2012) analysis on the cost of living in Australia	Cost of living in Australian capital cities
Queensland Government index of retail prices in regional centres, 2015	Consumer prices in Queensland
Rawlinsons Construction Cost Guide 2019	Regional construction cost indexes
Western Australian and Australian parliamentary inquiries into regional airfares	Regional airfares

¹⁰⁴ 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 eight more issues, with the latest released in 2019. In that year, the survey covered more than 300 goods and services in 39 locations, capturing the majority of the population in each of the nine non-metropolitan regions in Western Australia (DPIRD 2019).

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 were reported in the regional price indexes to its respective zone (for communities that were in a zone) and ABS remoteness area. Observations in the *major city* remoteness category were not included in the analysis, as the state capital cities (Perth and Brisbane) provided an adequate state 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 skewed 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. The Commission 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.
- The indexes contain only a small sample of remote communities, and they skew 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 (2019); QGSO (2016).

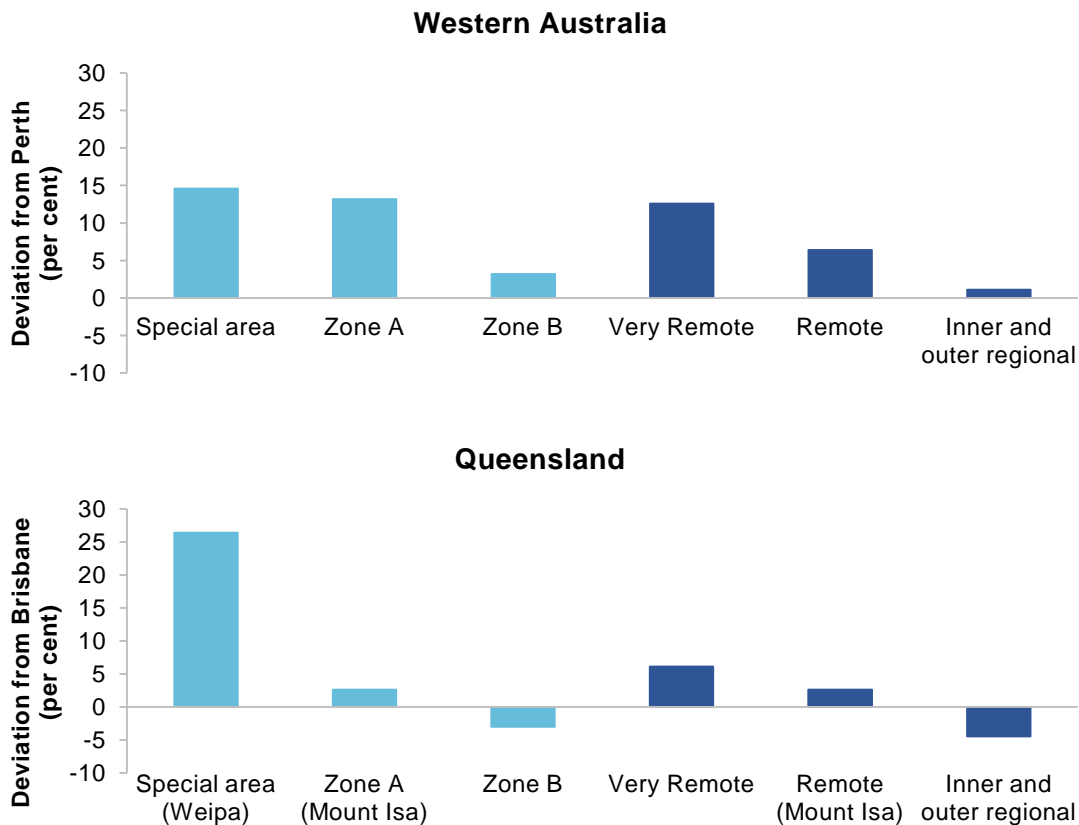
Subject to the limitations noted above, in both Western Australia and Queensland the average price of a typical household basket of goods increases with 'remoteness', as defined by the zones and ABS remoteness areas (figure B.1).

- 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 from those in their respective state 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 their respective state 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 13.2 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. This difference between Western Australia and Queensland may be due in part to a greater level of regionalisation in Queensland, with relatively larger towns and cities outside Brisbane compared to the number and size of towns outside Perth in Western Australia.

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) had significantly lower housing costs and lower overall costs than Brisbane, while the remaining *very remote* community, Weipa, had significantly higher housing and overall costs than Brisbane.

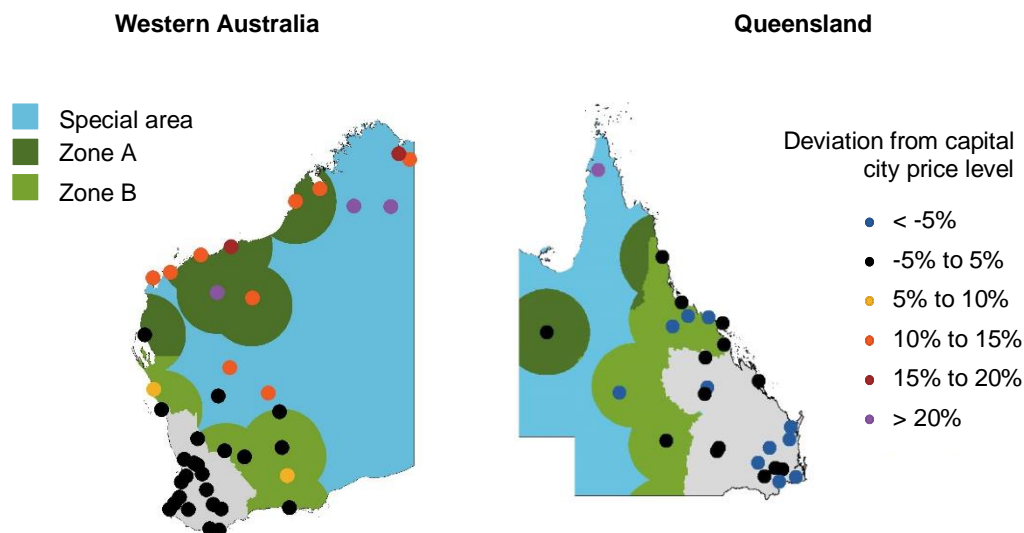
Figure B.1 Variation in price levels by degree of remoteness^{a,b,c,d}
 Cost of overall basket of goods and services by zone and ABS remoteness area, Western Australia and Queensland regional price indexes



^a Western Australia prices were surveyed in 2019 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 (2019); QGSO (2016).

Figure B.2 **Cost of overall basket of goods in the zones, from Western Australian and Queensland regional price indexes**



Sources: DPIRD (2019); QGSO (2016).

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:¹⁰⁵

- 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).

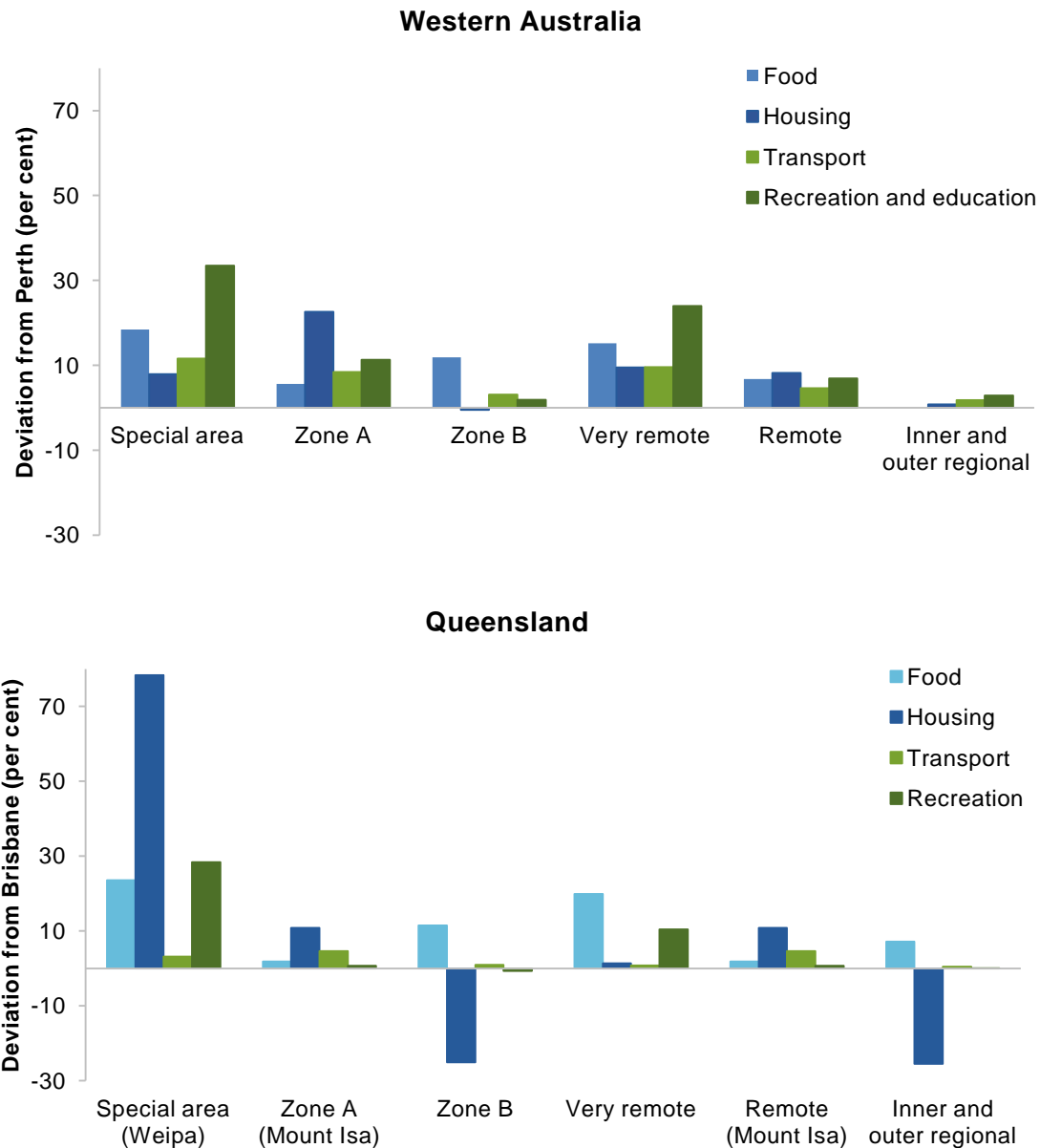
Together, these categories comprise around 60 per cent of average weekly household expenditure on goods and services in Zones A and B and nationally.

Figure B.3 provides a breakdown of average price levels in remote areas by these categories, drawn from the Western Australia and Queensland indexes.¹⁰⁶ 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.

¹⁰⁵ 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.

¹⁰⁶ The 2019 release of the Western Australia regional price index does not have a standalone category for recreation costs. Instead, it has a combined category for recreation and education costs.

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 2019 and Queensland prices were surveyed in 2015. The indexes measure the deviation in price levels from those in each 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 (2019); QGSO (2016).

Food and groceries

The Western Australia and Queensland regional price indexes measure the costs of various foods, non-alcoholic drinks, snacks, confectionery, dining out and takeaway food. Data from the indexes indicate that these costs were higher in all but one 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 (2014), 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.

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) confirmed that it employs state-based pricing structures.

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 socioeconomic 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). The data show a similar pattern for Aldi stores but significantly more variation in prices for IGA stores.

Source: CHOICE (2017).

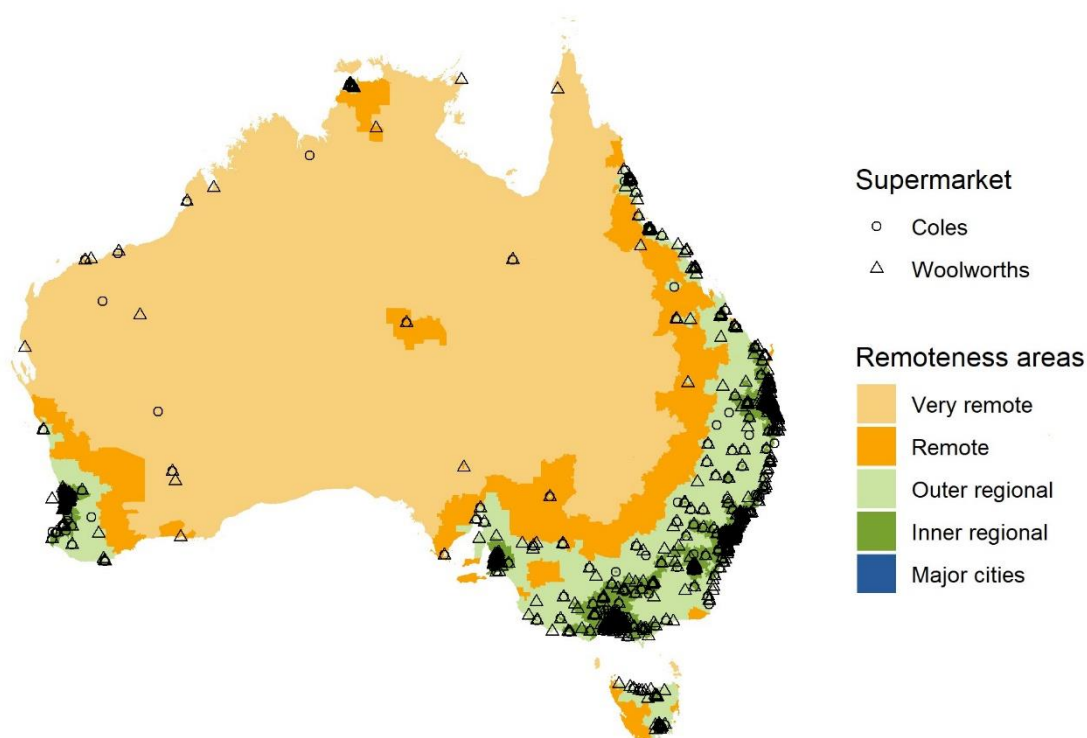
However, access to major supermarket stores declines with remoteness. There are only about 25 Coles or Woolworths stores in *remote* and *very remote* Australia, whereas there are over 150 in *outer regional* Australia, over 350 in *inner regional* Australia and over 1000 in *major cities* (figure B.4). While more than four in five residents of *outer regional* Australia live within a 50 km radius of a Coles or a Woolworths store, this falls to about half in *remote*

Australia and one in five in *very remote* Australia (table B.2).¹⁰⁷ (Using a 100 km radius yields higher proportions but a similar drop-off.)

As discussed later (section B.4), the pattern of food and grocery prices increasing with remoteness is also evident in the Northern Territory, as shown by the results of the Territory Government's Market Basket Survey and its discontinued Grocery Price Survey (Department of Treasury and Finance (NT) 2012; DOH (NT) 2019).

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.

Figure B.4 **Supermarkets by remoteness areas^{a,b}**
Woolworths and Coles retail store locations



^a 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 Woolworths and Coles store information was extracted on 9 September 2019.

Sources: Coles (2019); Woolworths (2019).

¹⁰⁷ 50 km was assumed to be a reasonable distance for a moderately frequent shopping trip (say, weekly), and 100 km was assumed to be the maximum distance for a less frequent shopping trip (perhaps every few weeks).

Table B.2 Access to supermarkets declines with remoteness^a
Residents within 50 km and 100 km radii of a Coles or Woolworths supermarket

<i>Remoteness area</i>	<i>Residents within radius of Coles or Woolworths store</i>	<i>Proportion of total remoteness area population (%)</i>
Within 50 km radius		
Outer regional	1 720 400	86
Remote	155 200	55
Very remote	34 700	18
Within 100 km radius		
Outer regional	1 957 900	98
Remote	197 200	70
Very remote	46 100	24

Sources: Commission estimates based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016*, Cat. no. 2073.0), Coles (2019) and Woolworths (2019).

Housing

In its analysis of housing prices, the Commission has examined the data listed in table B.3.

Table B.3 Housing data sources consulted

<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)
CoreLogic IntelliVal Automated Valuation Model data	CoreLogic	197 814	Median rent and house prices
Defence rent data	Department of Defence	179	Rent
Household, Income and Labour Dynamics in Australia survey	Melbourne Institute	154	Mortgage, rent, utilities and insurance
Regional price indexes	Western Australian and Queensland governments	18	Rent and utilities

^a For the regional price indexes, this is a count of locations; for CoreLogic data, this is a count of dwellings; for all other sources, it is a count of households. Observations include those in ABS *remote* and *very remote* categories.

In its draft report, the Commission looked at ABS census data on household rent and mortgage costs. It showed that median weekly rents decrease with remoteness, and that mortgage costs are higher in *major cities* than elsewhere. However, the data did not control for housing quality, which may differ in regional and remote areas.

The draft report also looked at data from the Household, Income and Labour Dynamics in Australia survey, which showed that rent and mortgage payments for three- and four-bedroom houses decrease with remoteness. However, the Commission noted that it was not satisfied with the sample size in *remote* and *very remote* Australia for one- and two-bedroom houses.

The difficulty in sourcing robust housing cost data arises partly because there are smaller and less active housing markets in remote Australia than in non-remote Australia.

The Commission has since acquired data on median rent and median house prices by remoteness area and number of bedrooms from CoreLogic, a provider of property information, analytics and property-related risk management services. The data are estimates produced using CoreLogic's Automated Valuation Model. This model generates point-in-time estimates of the market value of residential properties, using data sourced from CoreLogic's extensive property information database.

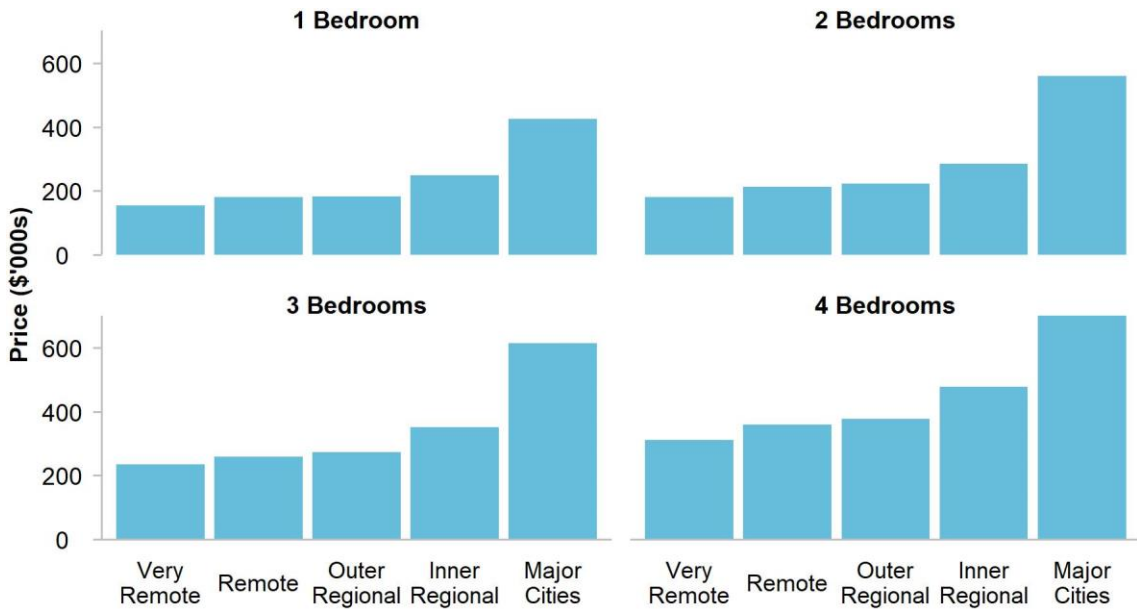
The CoreLogic data are not controlled for quality. This is a limitation because, as noted by the Government of Western Australia, the quality of accommodation may vary between regional and remote areas on the one hand and cities on the other (sub. DR145, p. 4). Consequently, results derived from these data need to be interpreted carefully. However, the CoreLogic data are at least segmented by the number of bedrooms, and add to the analysis in the draft report.

Median rent and house prices in remote and regional Australia are lower than in major cities

The CoreLogic data confirm that median house prices decrease with remoteness (figure B.5). There is a large decrease in median prices going from *major cities* to *inner regional* Australia. Median prices continue to decrease with increasing remoteness, although there is relatively little difference in median prices between *outer regional* and *remote* Australia.

CoreLogic data also indicate that median rent is higher in *major cities* than in the rest of Australia (figure B.6). There is relatively little difference in median rent between *inner regional*, *outer regional*, *remote* and *very remote* Australia, except for three-bedroom houses where median rent decreases with increasing remoteness.

Figure B.5 Median house prices decrease with remoteness^a
 Median house prices by ABS remoteness area and number of bedrooms

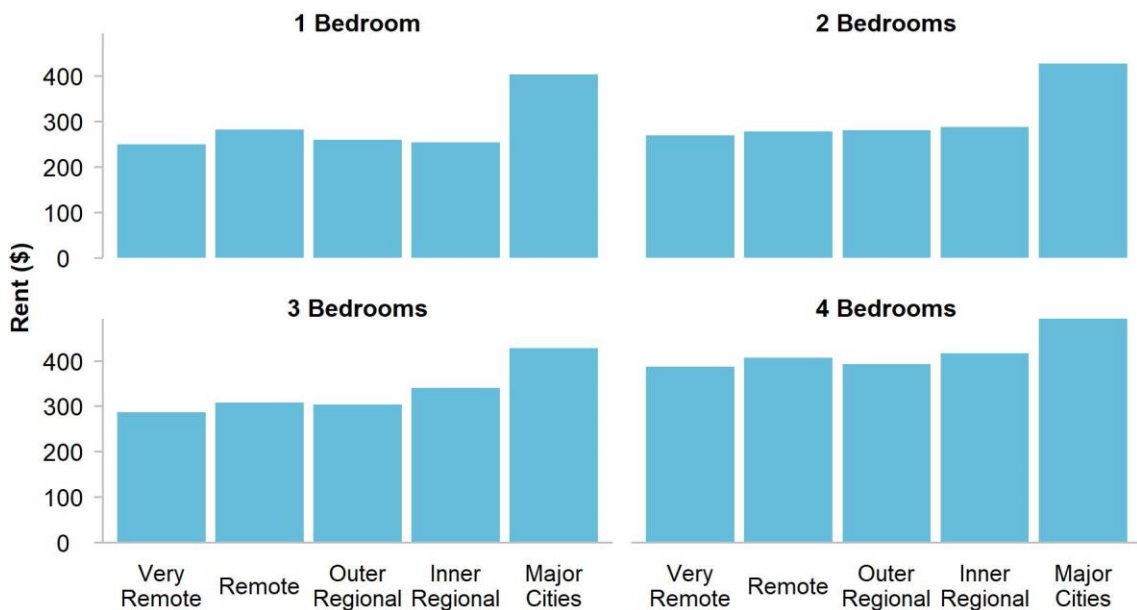


^a Estimates produced by CoreLogic's IntelliVal Automated Valuation Model.

Source: Data provided by CoreLogic.

Figure B.6 Median rent is higher in major cities than in the rest of Australia^a

Median weekly rent by remoteness area and number of bedrooms



^a Estimates produced by CoreLogic's IntelliVal Automated Valuation Model.

Source: Data provided by CoreLogic.

These trends are broadly consistent with the Commission’s preliminary finding in its draft report, based on ABS census data and Household, Income and Labour Dynamics in Australia survey data, that renting or buying homes is cheaper in *remote* and *very remote* areas than in less remote areas.

However, it is important to note that the median is a summary statistic that does not capture the spectrum of house prices and rents in regional and remote communities. For example, confidential housing rent data provided by the Department of Defence indicated that rent in a subset of *remote* and *very remote* communities (after controlling for a number of factors¹⁰⁸) was higher than in *major cities*.

The regional price indexes suggest higher housing costs in some remote areas

Although the CoreLogic data show that median house prices and rents are lower in *remote* and *very remote* Australia than in major cities, there are other housing costs, such as utilities and insurance, which in many cases increase with remoteness.

The Queensland regional price index estimated housing costs by measuring median weekly rents for dwellings along with 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 costs.

Both indexes show that housing costs are higher in remote communities than in their respective capital cities (figure B.3). This is true for special area, *Zone A*, *very remote* and *remote* communities. However, housing costs in all *Zone B* communities and most *inner* and *outer regional* communities were either lower than or not significantly different from those in the capital cities.

Other considerations

Home insurance costs are not captured in the housing costs category of the Queensland regional price index (although they 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. The increase in insurance costs is particularly evident in high cyclone risk areas (ACCC 2018, p. 66).

¹⁰⁸ Using ordinary least squares regression, estimates are controlled for rank, type of building, building owner (e.g. Defence Housing Australia), state, and number of bedrooms.

Construction cost indexes show a consistent pattern of costs increasing with remoteness for every State and Territory except Victoria (and the ACT), where construction costs remain relatively constant (Rawlinsons 2019, pp. 16–28). For example, Moomba in north-east South Australia had construction costs that were 60 per cent higher (for a given type and standard of dwelling) than in Adelaide. In Victoria, the highest construction costs were in Cooryong in the north-east, where construction was 8 per cent more expensive than in Melbourne (Rawlinsons 2019, pp. 20–23). Construction costs tend to be correlated with repair and maintenance costs, which also increase with remoteness (Nous Group 2019, p. 22). In areas prone to tropical cyclones, an additional expense in building houses is making them cyclone resistant (Suncorp 2016, p. 5).

Subsidised ‘social housing’ (that is, rental housing provided by State and Territory governments and the community sector) and employer-provided housing are both more prevalent in *remote* and *very remote* communities (box B.4). Living in social or employer-provided housing is typically cheaper than renting on the private 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 paid approximately 20 per cent of their income towards rent, reflecting the lower incomes of households reliant on social housing.

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.

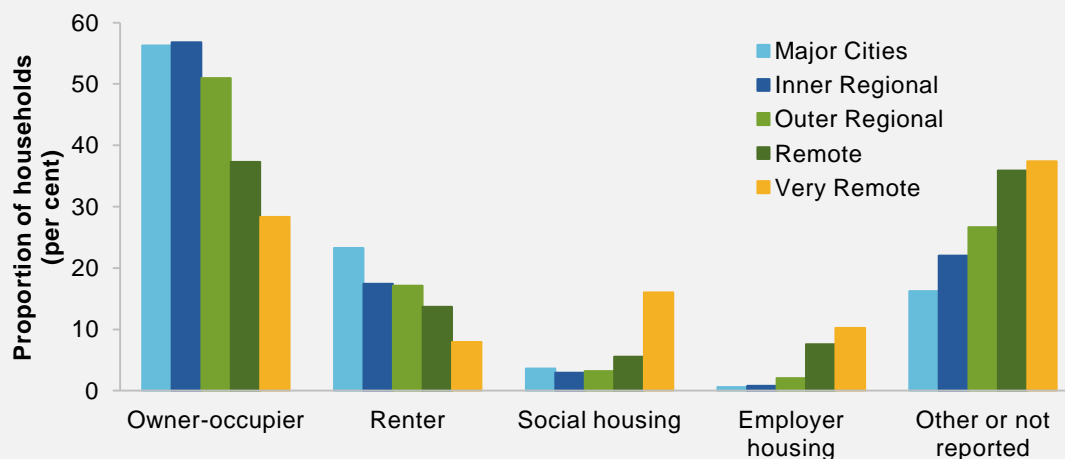
This interim report found that insurance premiums are considerably higher in northern Australia. For example, the highest average annual premiums for combined home and contents insurance products are found in the north of Western Australia (\$3500), followed by those in north Queensland (\$2400) and 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 (2018).

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 with 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 (2017a, 2019d); AIHW (2015).

Overall, while median rents and house prices are lower in regional and remote Australia than in *major cities*, the Commission has found some evidence that overall housing costs are higher in *remote* and *very remote* communities than in *major cities* and *inner* and *outer regional* communities. However, regional price indexes and other sources of housing cost data may not be comparing like with like. The quality of a house, its size, its 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.

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.¹⁰⁹ Travel patterns in remote and urban centres are sufficiently different that comparing like-for-like prices may not produce a realistic

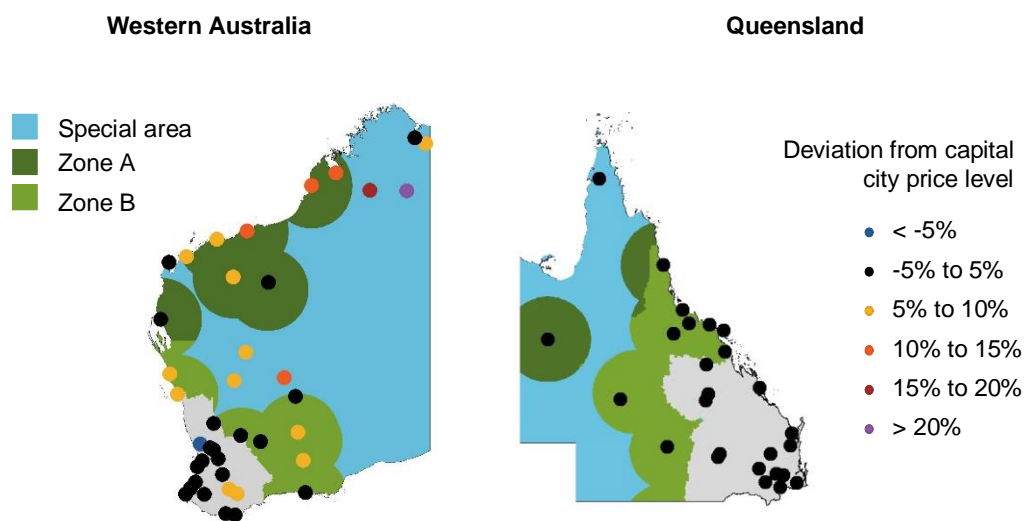
¹⁰⁹ Both regional price indexes are calibrated with ABS CPI consumption weights. All ABS CPI data is based on prices in capital cities.

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 though all Australians 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 about the same or greater in remote areas than they are in the capital cities (figures B.4 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, transport costs in *remote* communities were on average 4.6 per cent higher than in Perth, rising to 9.6 per cent in *very remote* communities; similarly, transport costs in Zone B communities were 3.1 per cent higher than in Perth, rising to 8.4 per cent in Zone A communities and 11.6 per cent in special areas.

Figure B.7 **Transport costs in the zones, from Western Australian and Queensland regional price indexes**



Sources: DPIRD (2019); QGSO (2016).

Regional airfares

As noted above, 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, city residents 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).

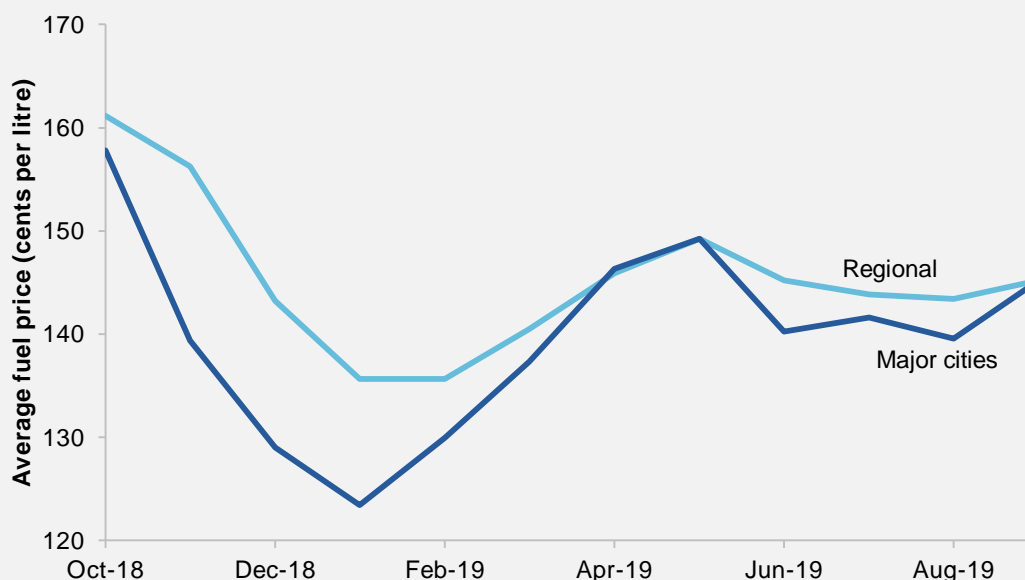
That said, many residents of regional and remote Australia will have cause to drive long distances on a regular basis. Moreover, residents of remote areas face additional car maintenance and fuel costs when they have to drive long distances, sometimes on poor-quality or unsealed roads, to access particular services (see, for example, 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).

Box B.5 Retail petrol prices are generally higher in regional locations

The ACCC monitors fuel prices in all capital cities and in over 190 regional locations across Australia. It has found that retail petrol prices are generally higher in regional locations and has suggested that the following may be contributing factors:

- a lower level of local competition
- lower volumes of fuel sold
- distance/location factors
- lower convenience store sales.

The influence of these factors varies significantly from location to location and over time. In the September 2019 quarter, the ACCC calculated average retail petrol prices to be 2.1 cents per litre higher in regional locations than in Australia's five largest cities. Between October 2018 and September 2019, average prices ranged from being 17 cents per litre higher in regional locations in November 2018 to being 0.4 cents per litre lower in regional locations in April 2019.



Source: ACCC (2019).

Freight

As noted in multiple submissions (for example, Hits Radio, sub. 11, p. 1), prices for goods incorporate the cost of transport (including remote freight costs), which can substantially increase prices. Higher transport costs can affect businesses that purchase physical stock from major cities. 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) (Rex 2019).

Businesses need to recoup these costs, passing higher freight expenses onto consumers through higher prices.

Consumers can also be directly affected by freight costs when they purchase goods for delivery (online or by telephone). Amazon, for example, has different delivery charges for major cities and regional/remote areas (which include Cairns, Townsville and Darwin) — priority delivery costs \$7.99 to \$59.99 in major cities but \$17.99 to \$79.99 in regional and remote areas (Amazon nd).

Recreation and education

The Western Australia regional price index estimates costs in the ‘recreation and education’ category by measuring the costs of items including newspapers and magazines, audio, visual and computing equipment, sporting goods and services, pets, toys, and primary and secondary education.

The Western Australia index indicates that the costs of recreation and education increase with remoteness. For example, recreation and education costs were on average 2.9 per cent higher in *inner* and *outer regional* communities than in Perth, rising to 6.9 per cent higher in *remote* communities and 24 per cent higher in *very remote* communities.

The Queensland regional price index does not estimate education costs. However, it does estimate costs in the ‘recreation and culture’ category by measuring the costs of items including newspapers and books, sports balls, swimming pool and tennis court hire, audio, visual and computing equipment and holiday travel and accommodation (domestic and international).

Data from the Queensland index is consistent with recreation costs being higher in the most remote communities. Weipa, the one special area community surveyed, had recreation costs 28.4 per cent higher than in Brisbane, while Mount Isa (the one Zone A community surveyed) and Zone B communities (on average) had recreation costs within 1 per cent of Brisbane. Similarly, the three *very remote* communities surveyed had recreation costs on average 10.4 per cent higher than in Brisbane, while Mount Isa (the one *remote* community surveyed) and *inner* and *outer regional* communities (on average) had recreation costs within 1 per cent of Brisbane.

B.4 The cost of living in the Northern Territory

Darwin

Darwin is home to about 12 per cent of ZTO claimants nationally (chapter 4) and about 20 per cent of RAA recipients (chapter 6). The following section draws on evidence on food, grocery, transport and housing costs, as well as experimental work on overall consumer prices, to examine how much Darwin residents pay relative to residents of other capital cities.

Food and grocery costs in Darwin appear comparable to those in other cities. CHOICE supermarket grocery price survey data indicate that, in 2017, representative leading brand, supermarket brand and budget brand grocery baskets bought at the Coles and Woolworths stores in Darwin ranged from about 4 per cent cheaper to about 3 per cent more expensive than the average for the metropolitan Coles and Woolworths stores surveyed (CHOICE 2017).

Transport costs in Darwin are relatively low compared with those in other capital cities. The Australian Automobile Association, the peak organisation for Australia's motoring clubs, releases a quarterly Transport Affordability Index report comparing transport costs in Australian capital cities and select regional centres. It found that, in the September quarter of 2019, Darwin had the lowest average total weekly transport costs of all capital cities. Darwin's weekly average transport costs for a benchmark household were measured at \$310, compared to the average of \$356 for capital cities and \$424 in Sydney (the most expensive city for transport costs) (Australian Automobile Association 2019, p. 6).

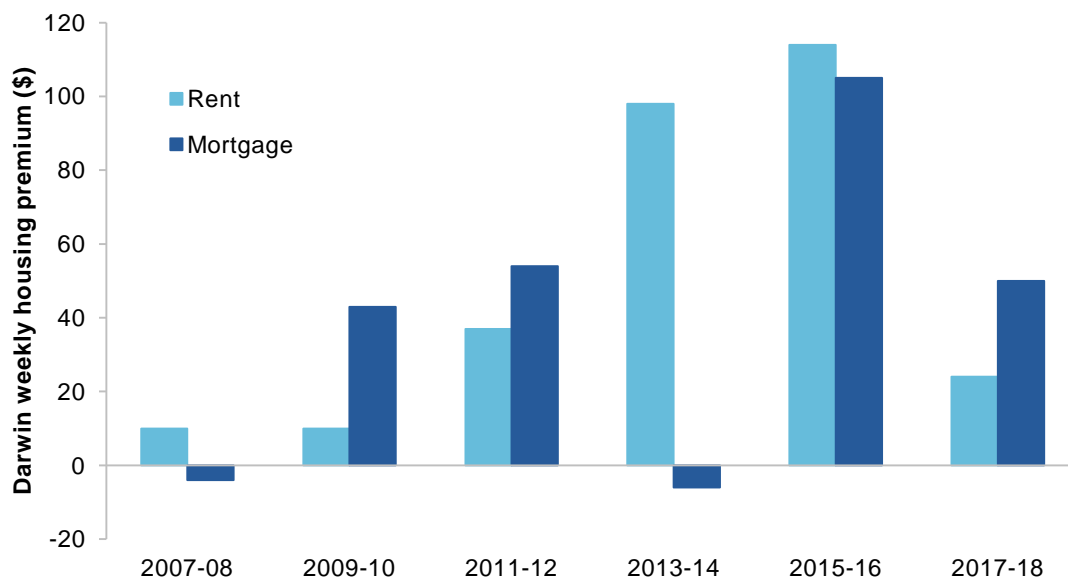
A feature of living costs in Darwin is that housing costs tend to fluctuate more there than in other capital cities. On average, Darwin residents have paid more for housing than the average of all capital cities since 2010, though higher expenditure seems to be moderating (figure B.8). Information from 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 reflect 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 2019d). By contrast, Darwin mortgage holders spent 16 per cent of their income on housing costs, equivalent to the average across all capital cities. The high cost of housing may also reflect relatively high construction costs, with construction costs in Darwin estimated to be 16 per cent higher than in Adelaide in 2019 (Rawlinsons 2019, p. 28).

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 that time.

Figure B.8 **Higher housing expenditure in Darwin^{a,b}**

Darwin median weekly housing expenditure, minus the median weekly housing expenditure across all capital cities

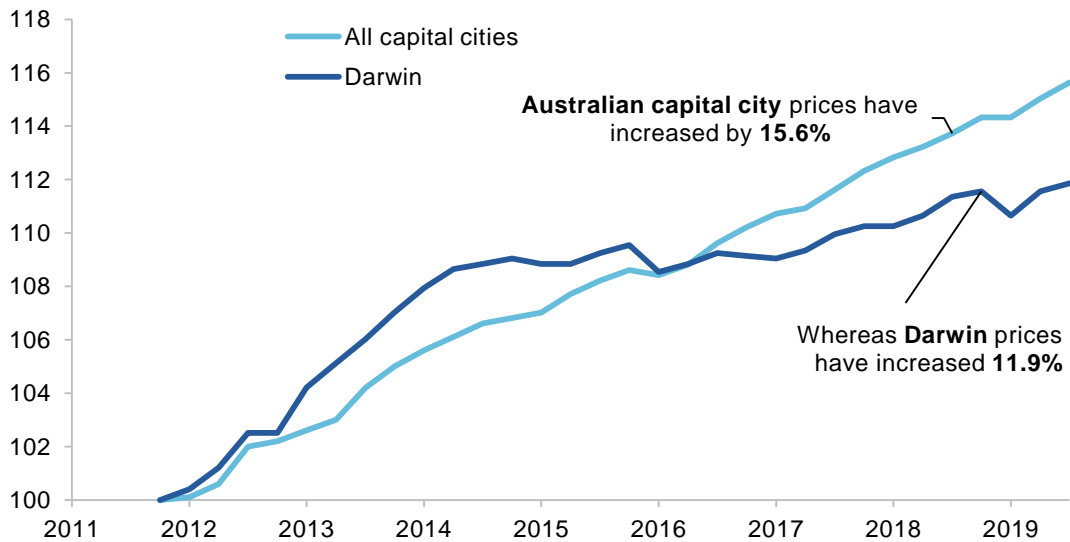


a Nominal; as reported. **b** This does not necessarily mean that the cost of supplying housing — that is, the cost of land, construction and/or leasing — is higher in Darwin. Higher expenditure on housing may also be due to greater demand for housing or more households opting for more expensive housing.

Source: ABS Housing Occupancy and Costs (various).

While there are reasonable data on some categories of household expenditure in Darwin, there is no national measure that would enable a comparison of *overall* living costs in Darwin with those in the other capital cities. An attempt to compare living costs in the capital cities was undertaken by Phillips et al. (2012). That analysis, based on experimental work by the ABS from 2003, suggested that, in December 2011, Darwin was one of the more expensive capital cities to live in (although it indicated that Sydney and Canberra were at least as expensive). However, even if Darwin was relatively expensive in 2011, prices in Darwin have since grown more slowly than prices in the other capital cities (figure B.9). Overall, the available evidence does not support the conclusion that the cost of living in Darwin is significantly higher than in the other capital cities.

Figure B.9 Darwin has had lower levels of inflation in recent years
 Consumer price index values (December 2011 = 100), from the December 2011 quarter to the September 2019 quarter



Source: ABS (2019c).

The broader Territory

The Northern Territory is home to about 20 per cent of ZTO claimants nationally (chapter 4) and about 55 per cent of RAA recipients (chapter 6). This section considers the evidence on food, grocery, fuel and construction costs in the Northern Territory outside of Darwin.

The same pattern of food prices increasing with remoteness is evident in the Northern Territory as in Western Australia and Queensland. The Northern Territory Government's Market Basket Survey shows that, in 2017, a food basket based on the average diet of Indigenous Australians was 45 per cent more expensive in remote stores than in a Darwin supermarket, and 26 per cent more expensive than the average of corner stores in regional centres (DOH (NT) 2019, p. 25).

Similarly, the Northern Territory Government's discontinued Grocery Price Survey suggests that a standard basket of groceries, including various food items, household supplies and pet foods, is significantly more expensive in *very remote* parts of the Northern Territory than in Darwin. The last survey, conducted in June 2012, showed that, while the cost of the grocery basket in both Alice Springs and Katherine (regional centres classified as *remote*) was within 5 per cent of the cost in Darwin, the basket cost 23 per cent and 26 per cent more than in Darwin in the *very remote* communities of Nhulunbuy and Yulara, respectively (Department of Treasury and Finance (NT) 2012).

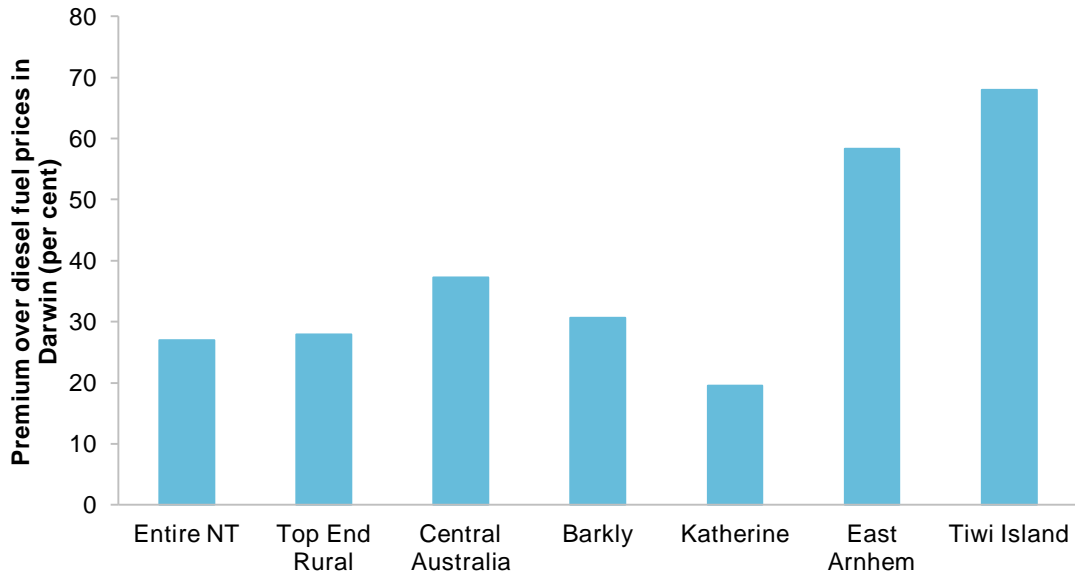
The effects of higher prices are partially mitigated in some remote Indigenous communities by customary food-collecting activities such as hunting, fishing and gathering. As noted by Biddle and Markham (2018, p. 1):

... survey research in Fitzroy Crossing, Nauiyu 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.

Remote Territorians face much higher fuel prices than those living in Darwin. In December 2019, the Northern Territory Government’s MyFuel NT website, which publishes fuel prices from across the Northern Territory, showed that the 12 month average price for diesel was much higher outside of the Darwin metropolitan region and particularly high in the East Arnhem and Tiwi Islands regions (figure B.10).

Figure B.10 Higher diesel fuel prices outside the Darwin metropolitan region^{a,b}
 12 month average diesel fuel prices in Northern Territory regions compared to the average in Darwin



^a 12 month average prices for diesel fuel were accessed on 4 December 2019. ^b Litchfield and Palmerston are not included in the comparison due to their geographic proximity to Darwin.

Source: Northern Territory Government (2019a).

Construction costs can also be very high in *very remote* communities in the Northern Territory. For example, in 2019, Yulara, Nhulunbuy and Groote Eylandt were estimated to have construction costs 75, 65 and 80 per cent higher than in Adelaide, respectively (Rawlinsons 2019, p. 28). However, as noted above, there is a high reliance on social housing in *remote* and *very remote* communities, including in the Northern Territory, and this social housing is typically cheaper to live in than privately rented housing.

C Use and cost of FBT remote area concessions

This appendix includes further details on the estimated use (and associated cost) of the fringe benefits tax (FBT) remote area concessions presented in chapters 7 and 8. In particular, it presents estimates on:

- the use and cost of both the FBT remote area exemption for employer-provided housing and the partial concessions on employee-sourced housing, where the housing is the employee's 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 cost 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 aggregate financial impact on service providers from the proposed changes to employer-provided housing (as a usual place of residence) (section C.4)

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 ABS Australian Statistical Geography Standard. This area is smaller than the FBT remote area. 'Very remote area' describes the parts of Australia classified as *very remote* under this standard.

The ABS Australian Statistical Geography Standard also divides the Australian landmass into Statistical Areas, which are used to disseminate a broad range of ABS statistics. They include (ABS Australian Statistical Geography Standard: Volume 1, 2016, Cat. no. 270.0.55.001):

- Statistical Area Level 1 (SA1), which have been designed as the smallest unit for the release of census data. They have an average population of about 400 people.
- Statistical Area Level 2 (SA2), which are medium-sized general purpose areas that generally have a population of 3000 to 25 000 people. Their purpose is to represent a community that interacts together socially and economically.
- Statistical Area Level 3 (SA3), which are geographic areas (often representing towns or areas in excess of 30 000 persons) designed for the output of regional data.

C.1 Remote area housing as usual place of residence

Data on the use and cost of FBT remote area concessions are not readily available. Employers are not required to report exempt goods and services (such as employer-provided housing) to the ATO. Where partial concessions are used, the reporting is insufficiently detailed to distinguish the remote area concessions from other concessions that apply Australia-wide.

The Commission has therefore drawn on a range of sources to shed light on the use of housing concessions (box C.2). Results were validated, in part, by responses to a questionnaire about use 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 their 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 Commission selected the reference person of the first listed household.

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).

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 use and cost, and as a robustness check for the assumptions underlying its 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.

Number and characteristics of employer provided remote area dwellings

Because the ABS does not separately identify the number of homes provided by employers in the FBT area that are used as a usual place of residence for employees, the Commission estimated this figure using the total number of employer-provided dwellings, adjusted to exclude dwellings used for temporary accommodation (box C.4). Although this approach has some limitations, these are unlikely to materially affect the results.

About 4 per cent of all homes (some 42 280 dwellings) located in the FBT remote area were provided by an employer for use as a usual place of residence (Commission calculations based on ABS Census of Population and Housing Microdata, 2016). About 1080 of these employer-provided dwellings were provided by ‘certain regional employers’ in the relevant parts of the FBT remote area (box C.2).

Just over half of all employer-provided dwellings used as a usual place of residence (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, nearly a third were located in *remote* or *very remote* areas. Figure C.1 and table C.1 summarises the distribution of employer-provided housing throughout the FBT remote area.

Box C.4 Counting dwellings used as a usual place of residence

The Commission estimated the number of employer-provided dwellings used as a usual place of residence in the FBT area by calculating the number of employer-provided dwellings in the 2016 ABS census, adjusted to exclude dwellings used for temporary accommodation. The adjustment involved excluding all 'non-private' dwellings — those dwellings that the ABS has determined are used for temporary accommodation. Examples of non-private dwellings include 'staff quarters', such as accommodation for temporary workers on a farm or in a holiday resort, or the accommodation that a fly-in fly-out or drive-in drive-out worker stays in while on-site.

This approach to estimating employer-provided dwellings used as a usual place of residence has some limitations. First, some dwellings used as temporary accommodation may have been misclassified as private dwellings and are therefore erroneously included in the Commission's count of employer-provided homes used as a usual place of residence. Second, some non-private employer-provided dwellings may be used as a usual place of residence (such as dwellings in which holiday resort staff live permanently onsite) and therefore have been erroneously excluded from the Commission's count.

These limitations are unlikely to materially affect the results. The Commission estimates that only about 2400 private dwellings — or about 6 per cent of the total — in the FBT remote area are used as temporary accommodation (Commission calculations based on ABS Census Microdata, 2016). Consequently, any overestimate of the number of employer provided dwellings used as a usual place of residence in the FBT remote area that results from misclassifying private temporary accommodation will be comparatively small. Furthermore, any overestimate of this kind will be partly offset by underestimates from misclassifying employer-provided accommodation (used as a usual place of residence) as a non-private dwelling. (The Commission was unable to quantify the latter effect, but considers that it is likely smaller than the first.)

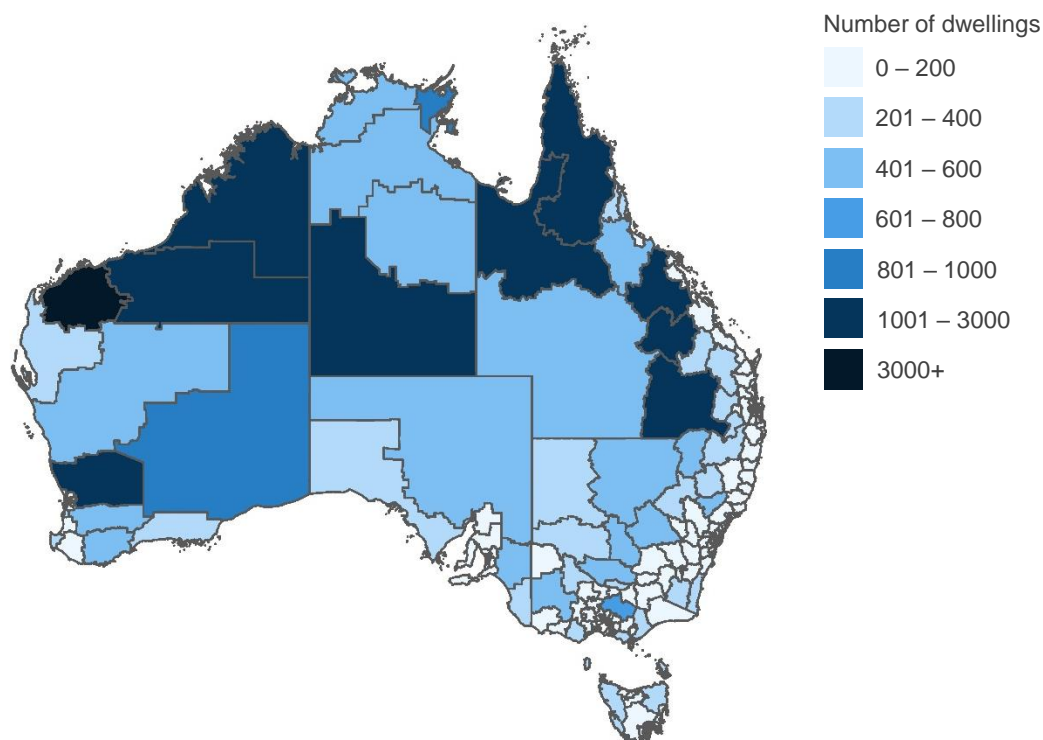
Table C.1 Top 20 locations in the FBT remote area for employer-provided dwellings

Employer-provided dwellings used as a usual place of residence, by SA3

Location	Number	Location	Number
West Pilbara (WA)	3 880	East Arnhem (NT)	880
Bowen Basin – North (Qld)	2 260	Goldfields (WA)	820
East Pilbara (WA)	2 200	Upper Goulburn Valley (Vic)	680
Central Highlands (Qld)	1 460	Bourke – Cobar – Coonamble (NSW)	600
Kimberley (WA)	1 200	Murray and Mallee (SA)	580
Far North (Qld)	1 140	Daly – Tiwi – West Arnhem (NT)	580
Darling Downs (West) – Maranoa (Qld)	1 060	Katherine (NT)	580
Outback – North (Qld)	1 060	Outback – North and East (SA)	560
Alice Springs (NT)	1 060	Charters Towers – Ayr – Ingham (Qld)	520
Wheat Belt – North (WA)	1 020	Outback – South (Qld)	500

Source: Commission calculations based on ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001).

Figure C.1 Employer-provided dwellings in the FBT remote area
Employer-provided dwellings used as a usual place of residence, by SA3



Source: Commission calculations based on ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001).

About three quarters of employer-provided dwellings used as a usual place of residence had three or more bedrooms (table C.2). Dwellings provided by government employers tended to have slightly more 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 used as a usual place of residence were detached (table C.3). In some parts of the country, other types of dwellings were also common. For example, in the Kimberley, nearly one in five dwellings provided by private employers were non-standard structures such as caravans, cabins or housing attached to shops.

Table C.2 Employer-provided dwellings, by number of bedrooms

Proportion of dwellings used as a usual place of residence,^a selected locations

Location	Employer	No or one bedroom	Two bedrooms	Three bedrooms	Four or more bedrooms
		per cent	per cent	per cent	per cent
West Pilbara (WA)	Government	4	13	43	40
West Pilbara (WA)	Private	3	11	49	37
Bowen Basin – North (Qld)	Government	2	23	52	24
Bowen Basin – North (Qld)	Private	4	10	49	37
East Pilbara (WA)	Government	4	19	36	40
East Pilbara (WA)	Private	4	15	44	37
Kimberley (WA)	Government	4	21	35	39
Kimberley (WA)	Private	18	24	37	19
Australia	Government	5	15	37	43
Australia	Private	11	23	41	25

^a Row totals may not sum to 100 per cent 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 used as a usual place of residence,^a selected locations

Location	Employer	Separate house	Semi-detached	Flat	Other ^b
		per cent	per cent	per cent	per cent
West Pilbara (WA)	Government	86	9	3	1
West Pilbara (WA)	Private	84	11	3	1
Bowen Basin – North (Qld)	Government	74	15	9	1
Bowen Basin – North (Qld)	Private	83	10	5	2
East Pilbara (WA)	Government	82	5	10	2
East Pilbara (WA)	Private	79	8	11	2
Kimberley (WA)	Government	73	18	6	3
Kimberley (WA)	Private	64	10	7	18
Australia	Government	74	13	10	2
Australia	Private	67	12	16	5

^a Row totals may not sum to 100 per cent due to rounding. ^b Includes caravans, tents and other improvised shelters, houses and flats attached to shops, cabins and houseboats and non-stated.

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 ABS industry divisions with the most employer-provided housing were: Agriculture, Forestry and Fishing; Mining; Public Administration and Safety; and Education and Training. Commission calculations show that over half of all employer-provided dwellings located in the FBT remote area were provided by employers in these four industry divisions (table C.4).

Table C.4 Employer-provided dwellings in FBT remote area, by industry
Proportion of employer-provided dwellings used as a usual place of residence in the FBT remote area where the reference person was in the listed industry

Industry	Number	Share of total (per cent)
Agriculture, Forestry and Fishing	7 240	17
Mining	6 220	15
Not applicable or not stated ^a	5 320	13
Public Administration and Safety	5 140	12
Education and Training	4 040	10
Health Care and Social Assistance	3 560	8
Accommodation and Food Services	2 100	5
Other Services	1 300	3
Retail Trade	1 300	3
Manufacturing	1 060	3
Construction	960	2
Transport, Postal and Warehousing	920	2
Other industries	800	2
Professional, Scientific and Technical Services	660	2
Arts and Recreation Services	380	1
Electricity, Gas, Water and Waste Services	380	1
Administrative and Support Services	340	1
Wholesale Trade	320	1
Rental, Hiring and Real Estate Services	240	1

^a 'Not applicable or not stated' means that the reference person resided in an employer-provided dwelling but did not indicate their labour force status, indicated their labour force status but did not record an industry, or were unemployed. In the latter case, the dwelling may have been provided by the employer of another household member.

Source: Commission calculations based on ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001).

Income distribution of people in employer-provided housing

Individual tax savings from the housing exemption depend on an employee's marginal income tax rate. About half the reference persons in employer-provided housing used as a usual place of residence have an income of more than \$65 000 per year, and about one in four have an income of more than \$104 000 per year (table C.5).

Table C.5 Income distribution of people in employer-provided housing^{a,b}

Weekly total income of reference person in an employer-provided dwelling, used as a usual place of residence, in the FBT remote area

<i>Weekly income (yearly equivalent)</i>	<i>Number</i>	<i>Per cent</i>
\$1–\$149 (\$1–\$7 799)	700	2
\$150–\$299 (\$7 800–\$15 599)	1 080	3
\$300–\$399 (\$15 600–\$20 799)	1 680	4
\$400–\$499 (\$20 800–\$25 999)	1 520	4
\$500–\$649 (\$26 000–\$33 799)	2 600	7
\$650–\$799 (\$33 800–\$41 599)	2 760	7
\$800–\$999 (\$41 600–\$51 999)	3 880	10
\$1 000–\$1 249 (\$52 000–\$64 999)	4 940	12
\$1 250–\$1 499 (\$65 000–\$77 999)	3 560	9
\$1 500–\$1 749 (\$78 000–\$90 999)	3 320	8
\$1 750–\$1 999 (\$91 000–\$103 999)	3 160	8
\$2 000–\$2 999 (\$104 000–\$155 999)	6 840	17
\$3 000 or more (\$156 000 or more)	3 800	10

^a Housing is assumed to be provided by the employer of the household reference person. Where there are multiple households in a dwelling (true in less than 1 per cent of cases), the reference person of the first listed household was chosen. ^b Weekly salaries are based on the total personal income the reference person usually received. Household reference persons for whom income was not stated, was zero or negative, are excluded.

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 used as a usual place of residence

Estimating the cost of the exemption for employer-provided housing (used as a usual place of residence) requires data on the market value of these dwellings.

The average rent reported in 2016 by people in all employer-provided housing was about \$200 per week (for government employees) and about \$240 per week (for all other employees). These averages are for rent *paid*, which likely underestimates the average market rent of these dwellings. About 10 per cent of households in housing provided by a government employer reported paying no rent, and 16 per cent of households in housing provided by other employers said the same; outside of *major cities* and *inner regional* areas, those figures were 14 per cent and 27 per cent respectively (Commission calculations based on ABS Census of Population and Housing TableBuilder Pro, 2016).

It is unlikely that the actual market value of any dwelling is zero; even if it is very basic, it will still have a positive value in most cases. Excluding households that live rent-free, the average rent paid for an employer-provided dwelling in the FBT remote area was about

\$160 per week (Commission calculations based on ABS Census of Population and Housing Microdata, 2016). This could still underestimate the average market rent for these dwellings, given that some occupants who do pay some rent will receive a discount from their employer.

The Commission's view is that \$160 to \$200 per week (about \$8000 to \$10 400 per year) is a plausible range for the average market value of employer-provided housing in the FBT remote area. This covers the average rent paid on employer-provided housing in the FBT remote area (where a non-zero amount of rent is reported), and the median rent 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.6).

Table C.6 Distribution of rents on all housing in areas with the highest number of employer-provided dwellings^a

Weekly rent paid (dollars)

	<i>25th percentile</i>	<i>Median</i>	<i>75th percentile</i>
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 (NT)	37.5	87.5	162.5

^a Excludes dwellings for which rent was not stated, was not available or was not charged.

Source: Commission calculations based on ABS (*Census of Population and Housing: TableBuilder Pro, Australia, 2016, Cat. no. 2073.0*).

FBT revenue forgone due to the remote area housing concessions

The Commission estimates that the total FBT revenue forgone due to the exemption for employer-provided housing (as usual place of residence) was between \$300 million and \$390 million (table C.7). About \$30 million to \$50 million of this was estimated to accrue in the Pilbara (table C.8). Changing the exemption to a 50 per cent concession would halve these estimates.

Table C.7 FBT forgone 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>	
	High	Low	High	Low
Number of employer-provided dwellings used as a usual place of residence in the FBT remote area				
Total number of dwellings in FBT remote area	41 200	41 200		
Total eligible dwellings in additional area for 'certain regional employers'	1 080	1 080	Same as exemption	
Total employer-provided dwellings^b	42 280	42 280		
FBT saving on employer-provided housing				
Average yearly rent	\$10 400	\$8 000	\$10 400	\$8 000
FBT liability ^c	0	0	\$4 610	\$3 550
FBT saving from using concession	\$9 220	\$7 090	\$4 610	\$3 550
Static estimate of FBT forgone	\$390 million	\$300 million	\$195 million	\$150 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 A dwelling was counted if it was in an ABS Statistical Area Level 1 where more than 50 per cent of the land area was inside the FBT remote area zone.

^c Where housing is provided as usual place of residence in the FBT remote area, it is assumed that the employer claims the FBT exemption.

Sources: 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 alter their 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 (hereafter, wages); continue to provide housing but reduce wages, or cease their operations. These behavioural changes would affect the amount of other taxes (such as income tax and company tax) received by the government, and most likely lead to a smaller increase in tax revenue from a change in the FBT concessions compared to the static estimate of FBT forgone presented here.

Table C.8 FBT savings from the housing exemption in the Pilbara
East and West Pilbara SA3s

	High	Low
Number of employer-provided dwellings (as usual place of residence)	6 080	6 080
Average yearly rent ^a	\$9 750	\$5 850
FBT liability	0	0
Tax savings from using the exemption	\$53 million	\$32 million

^a Based on median and 25th percentile rents of all dwellings in East Pilbara.

Source: Commission calculations based on ABS (*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’. In other words, 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. This is likely to be 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 for housing where it is available.

Cost of partial concessions on 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, payments for option fees and 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 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’. It 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 within all three sectors targeted by the questionnaire (mining, agriculture, and local government entities), it was most commonly provided in the mining sector. Assistance with employee-sourced housing was also provided less frequently than employer-provided housing, 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 (chapter 7). An estimate of the number of FIFO and DIDO workers was undertaken to shed light on use of these exemptions. This 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 SA2 and their work destination zone (DZN). A person was classified as a long-distance commuter when the distance between the centroid¹¹⁰ of the SA2 that is their usual place of residence and the centroid of their work destination zone exceeded some threshold (box C.5). The Australian landmass is covered by 2310 SA2s and 9172 DZNs, creating 21 187 320 possible 'commutes'.

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.

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). However, this is a commuting distance that some people do daily. Counting all commuters who travel between 100 km and 250 km from their home to 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.5). 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 70 300).

¹¹⁰ The centroid is the average of coordinates, whereas the centre is equidistant from all points.

Box C.5 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 is 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 can 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 (where all counts and totals in a dataset are slightly adjusted to safeguard anonymity) reduced the total count by about 3.5 per cent — an acceptable error. SA2s and DZNs are also small enough so that the vast majority of people live or work within 50 kms 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 differ. This can exaggerate or underestimate the 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 short-distance commutes, but is relatively insignificant for calculating long-distance commutes.

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 was found to be 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 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 (cumulative total)</i>
100 km – 250 km	45 400	> 100 km	115 700
250 km – 350 km	12 000	> 250 km	70 300
350 km – 500 km	7 800	> 350 km	58 300
More than 500 km	50 500	> 500 km	50 500

^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).

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 a *remote* or *very remote* area (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 of all FIFO workers (per cent)	Area	Proportion of all FIFO workers (per cent)
<i>Major Cities</i> of Australia	67	<i>Remote</i> Australia	1
<i>Inner Regional</i> Australia	17	<i>Very Remote</i> Australia	3
<i>Outer Regional</i> Australia	13		
Top six source communities (SA3)			
Rockingham (WA)	6	Swan (WA)	4
Wanneroo (WA)	6	Stirling (WA)	3
Mandurah (WA)	5	Joondalup (WA)	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 of all FIFO workers (per cent)	Area	Proportion of all FIFO workers (per cent)
<i>Major Cities</i> of Australia	0	<i>Remote</i> Australia	18
<i>Inner Regional</i> Australia	2	<i>Very Remote</i> Australia	68
<i>Outer Regional</i> Australia	11		
Top six FIFO destinations (SA3)			
West Pilbara (WA)	34	Bowen Basin – North (Qld)	6
East Pilbara (WA)	22	Outback – North (Qld)	5
Goldfields (WA)	9	Outback - North and East (SA)	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 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 locally. 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, falling to one in five within 100 km of an ABS 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	
	FIFO workers number	Proportion of FIFO workers per cent	FIFO workers number	Proportion of FIFO workers per cent
3 500	13 500	26	16 450	32
5 000	12 400	24	15 700	30
Significant Urban Area ^b	9 100	18	11 400	22

^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. ^b A Significant Urban Area represents significant towns and cities of 10 000 people or more.

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 to be distributed evenly throughout a DZN but tend to 'cluster' in specific locations, such as at a mine site or in a town (box C.5). 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 located 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).

- About 58 per cent of mines (213 of 368 operating mines) are estimated to be within 100 km of a town of at least 3500 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.

The advantage of this approach is that the coordinates of a mine site are known, and so distances to nearest towns can be calculated accurately. The drawback is that it includes *all*

mines, not just those that use FIFO workers. Some mines use workers based locally, so this robustness check is more of a ‘sense check’ than an accurate estimate of FIFO workers.

Table C.13 List of towns with 5000+ people in the FBT remote area

Alice Springs	Colac	Gympie	Margaret River	Sale
Ararat	Collie	Hamilton	Maryborough	Sarina
Atherton	Cooma	Hervey Bay	Millicent	Scone
Ayr	Cootamundra	Horsham	Moama	Seymour
Bairnsdale	Corowa	Innisfail	Moranbah	Singleton
Ballina	Cowra	Inverell	Moree	Stanthorpe
Batemans Bay	Dalby	Inverloch	Mount Isa	Stawell
Benalla	Deniliquin	Kalgoorlie - Boulder	Mudgee	Swan Hill
Biloela	Drouin	Karratha	Murray Bridge	Tumut
Blue Mountains	Dunsborough	Kempsey	Muswellbrook	Tuncurry
Bowen	Echuca	Kilmore	Nambucca Heads	Ulladulla
Broken Hill	Emerald	Kingaroy	Naracoorte	Warragul
Broome	Esperance	Kununurra	Narrabri	Warwick
Busselton	Forbes	Kyabram	Newman	Woodend
Byron Bay	Forster	Kyneton	Northam	Yamba
Camden Haven	Gatton	Leeton	Nuriootpa	Yarrawonga
Cannonvale	Glen Innes	Lennox Head	Parkes	Yeppoon
Castlemaine	Goolwa	Leongatha	Port Hedland	Young
Charters Towers	Goondiwindi	Lithgow	Port Lincoln	
Chinchilla	Griffith	Maffra	Portland	
Cobram	Gunnedah	Mareeba	Roma	

Source: AustralianTownsList.com (2020).

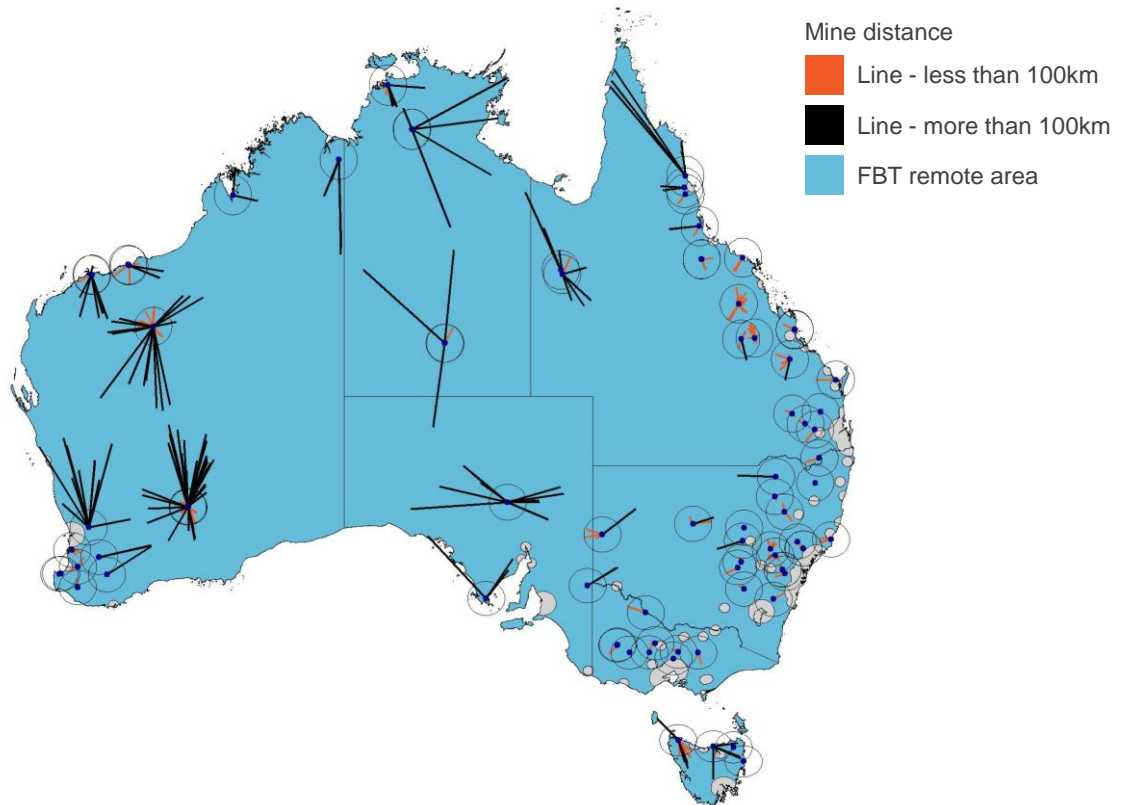
Table C.14 Operating mines close to regional towns^a

Minimum town size	Distance to town - 50 km		Distance to town - 100 km	
	number	proportion	number	proportion
3 500	147	40 per cent	216	58 per cent
5 000	125	34 per cent	197	54 per cent
Significant Urban Area ^c	68	18 per cent	104	28 per cent
Western Australia^b				
3 500	46	29 per cent	68	42 per cent
5 000	42	26 per cent	68	42 per cent
Significant Urban Area ^c	35	22 per cent	49	30 per cent

^a 368 mines operate in the FBT remote area. ^b 161 mines operate in Western Australia. ^c A Significant Urban Area represents significant towns and cities of 10 000 people or more.

Source: Commission calculations based on Geoscience Australia (2015) data.

Figure C.2 **Mine distance to the 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 of FIFO and local workers



^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 (2015) data.

These results suggest that a significant proportion of FIFO or DIDO operations are too far from a town to make residing locally a feasible option.

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 costs of the remote area concessions than those on housing.

Residential fuel

FBT partial concessions on residential fuel are available for employees in the FBT remote receiving either employer-provided housing or assistance with employee-sourced housing. The Commission has estimated the use and cost of the residential fuel concession on employer-provided housing, but not for employee-sourced housing. This is because of the lack of data on employee-sourced housing — 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 little-used compared to employer-provided housing, but use of the partial concession on residential fuel is only possible in conjunction with the partial 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 \$19 million per year (table C.15). This is based on:

- Commission estimates that 42 280 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 mining, local government and agriculture industries
- 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.

Based on the Commission’s questionnaire, the use of residential fuel concession was largest 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.

Table C.15 FBT forgone due to the partial concessions on residential fuel^{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	\$6 million
Tasmania	\$2 290	\$0.4 million
Northern Territory	\$2 080	\$2 million
Total	\$2 030	\$19 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).

Holiday transport

Partial concessions may apply to transport — provided or paid for by an employer — 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.¹¹¹ Travel must be undertaken and the holiday must exceed three working days in order to qualify for a holiday transport concession (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 lack of suitable 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 (2019b) estimated that FBT revenue forgone as a result of this concession was up to \$10 million in 2018-19. 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.

¹¹¹ Aside from the Northern Territory, where Adelaide is considered the state capital city, and Christmas Island, where Perth is considered the state capital city.

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 industry divisions: Agriculture, Forestry and Fishing; and Transport, Postal and Warehousing (Commission estimates based on ABS Australian and New Zealand Standard Industrial Classification, 2006, Cat. no. 1292.0). There are about 168 000 employees in the Agriculture, Forestry and Fishing industry division and 57 000 in the Transport, Postal and Warehousing industry division in the FBT remote area (Commission calculations based on ABS Census of Population and Housing TableBuilder Pro, 2016). Within the latter industry division, 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 division 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 (2019b) 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 division 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.

C.4 Estimating the impacts on services

The Commission used census data to estimate the aggregate financial impact on service providers from the proposed changes to employer-provided housing (as a usual place of residence). The data have some limitations, as they only record the industry a person is in and not whether they are providing public services. The Commission investigated which industries were likely to have a majority of employees involved in service provision.

At the ABS industry division level (the most aggregated), three industries are likely to have a majority of employees involved in service provision: Public Administration and Safety, Education and Training, and Health Care and Social Assistance. These industry divisions account for about one third (12 per cent, 10 per cent and 8 per cent, respectively) of employer-provided dwellings in the FBT remote area (table C.4). Based on this classification, and on a pro-rata basis, the ‘morning after’ increase in FBT on employer-provided housing (as a usual place of residence) could be between about \$45 million and \$60 million for service providers.

Using ABS industry classes (of which there are 712) to classify industries in service provision, the Commission has identified 64 industry classes for which a majority of employees are likely to be providing public services (table C.16), but notes that a degree of judgment was involved. About 30 per cent of employer-provided dwellings in the FBT remote area are held in these industry classes. This is a similar proportion to the three industry divisions discussed above, which would suggest a similar estimated impact.

Updating the FBT remote area boundaries (recommendation 8.4) would also affect service delivery organisations, although the impact from this change would most likely be small. The ‘morning after’ increase in FBT for *all* employers as a result of updating the boundaries (assuming a 50 per cent concession on employer-provided housing) would be about \$10 million to \$14 million per year (chapter 8). Service delivery organisations would only account for a proportion of this amount. What’s more, some organisations could choose to pay wages in lieu of providing housing and avoid this extra tax liability; their income tax liability would be broadly similar to their FBT liability in the case of a partial concession.

Table C.16 Industry classes for which a majority of employees are likely to be in public service provision^a

Waste Collection, Treatment and Disposal Services, nfd	Education and Training, nfd	Allied Health Services, nfd
Waste Collection Services	Preschool and School Education, nfd	Dental Services
Solid Waste Collection Services	Preschool Education	Optometry and Optical Dispensing
Other Waste Collection Services	School Education, nfd	Physiotherapy Services
Waste Treatment, Disposal and Remediation Services, nfd	Primary Education	Chiropractic and Osteopathic Services
Waste Treatment and Disposal Services	Secondary Education	Other Allied Health Services
Postal Services	Combined Primary and Secondary Education	Other Health Care Services, nfd
Public Administration and Safety, nfd	Special School Education	Ambulance Services
Public Administration, nfd	Tertiary Education, nfd	Other Health Care Services
Central Government Administration	Technical and Vocational Education and Training	Residential Care Services, nfd
State Government Administration	Higher Education	Aged Care Residential Services
Local Government Administration	Adult, Community and Other Education, nfd	Other Residential Care Services
Justice	Adult, Community and Other Education	Social Assistance Services, nfd
Domestic Government Representation	Educational Support Services	Child Care Services
Public Order, Safety and Regulatory Services, nfd	Hospitals, nfd	Other Social Assistance Services
Public Order and Safety Services, nfd	Hospitals (except Psychiatric Hospitals)	Heritage Activities, nfd
Police Services	Psychiatric Hospitals	Museum Operation
Investigation and Security Services	Medical and Other Health Care Services, nfd	Parks and Gardens Operations, nfd
Fire Protection and Other Emergency Services	Medical Services, nfd	Zoological and Botanical Gardens Operation
Correctional and Detention Services	General Practice Medical Services	Nature Reserves and Conservation Parks Operation
Other Public Order and Safety Services	Specialist Medical Services	
Regulatory Services	Pathology and Diagnostic Imaging Services	

^a Some people are classified into industries that are not further defined (nfd).

Source: ABS (*Australian and New Zealand Standard Industrial Classification*, cat. no. 1292.0).

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