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Submission to the Productivity Commission on the Remote Area Tax Concessions and Payments Draft Report, October 2019.

Introduction:

PVW Partners welcomed the opportunity to make a submission to the Productivity Commission Issues Paper on Remote Area Tax Concessions and Payments. While the firm agrees with some elements of the findings in the Productivity Commission's Draft Report, there are recommendations contained within which would have far reaching adverse impacts for many people across regional and remote Australia, including our agricultural sector, the mining sector and regional businesses and communities more broadly.

Some specific concerns we have with the overall tone and interim findings of the Draft Report include:

- Whilst we have not reviewed every submission made to the Productivity Commission, it appears on face value that the views of many across regional Australia, including the submission made by PVW Partners, along with the commentary provided at a Productivity Commission Roundtable in Townsville on the 4th of April 2019, have been largely overlooked in the Draft Report.

- The Productivity Commission's views that

  - "towns and regions should be allowed to develop and prosper, or not, according to their own attributes"; and

  - "Ultimately, regions need to be self-sustaining".

  seem to run counter to repeated instances of actual and proposed policy from Federal Governments and Oppositions and also seems to reinforce unnecessary divides between urban and regional Australia. These views are detrimental to regional Australia when compared to policy settings for urban Australia.

  For example, if it holds true that the "growth or decline of particular areas generally reflects their intrinsic features and economic advantages and disadvantages" and that Government should not intervene, then why is Government policy (and previously proposed Opposition policy) directed toward housing affordability concerns in our major cities, especially Sydney and Melbourne?

- There are multiple instances in the Draft Report where it appears anecdotal evidence is being relied upon to support draft recommendations and the "empirical challenge" is acknowledged early on in the draft report. We do note that the Productivity Commission has indicated some further work will be conducted to produce further empirical evidence (e.g., in relation to regional and remote living costs).

- There are instances where data cited in the draft report is inconsistently applied - incorporating longer term, 35-year data series in some instances, while at the same time using rental data sets from 2017. By marrying these incompatible data sets, it is almost impossible to get a true reflection of the situation faced by regional Australians over a sustained period and then extrapolate likely positions into the future. The juxtaposition of point in time data sets with longer term trends can lead to erroneous conclusions that don't reflect actual circumstances.

- The Draft Report reflects on labour mobility but makes limited or no observations, or provides empirical evidence, around the mobility of business ownership or business activities. There appears to be an underlying assumption that business ownership and labour is mobile and can move on a whim. Regional Australia is home to many businesses which simply could not operate anywhere else, such as graziers and horticultural farmers and the businesses that service those agricultural activities. PVW Partners asks that the Productivity Commission consider this when drafting its Final Report.

- The assumption that regional centres like Townsville, Cairns and Darwin are "well-connected" due to the addition over the decades of airports and other infrastructure should also be re-visited and alternative viewpoints sought. These centres are arguably better connected than was the case 70 years ago, but with extended periods of rain during the wet season, many regional areas in Northern Australia are regularly isolated, with highways cut in some instances for weeks on end. This has a significant impact on business operations across regional areas, as well as the broader community which often suffers from diminished service provision and a lack of mobility.

- Some of the recommendations are too broad-brush and fail to take into account the actual realities of living and working in regional and remote Australia. For example, the suggestion that the provision of housing by a remote agri-business to its likely small number of employees should become subject to FBT where there is no market for such housing and no practical or commercial alternative for that agri-business to provide housing to its employees.

- The Draft Report intimates that employers are potential beneficiaries of a higher Zone Tax Offset because this might mean they would be able to either offer lower total remuneration packages to new employees or reduce what they pay their current employees (that is, reduce their costs of employment due to the change in a tax offset). This suggestion is divorced from the reality of employment in any part of Australia. Did employers throughout Australia benefit from the recent changes to the Low- and Middle-Income Tax Offset? Have employers traditionally made employment offers on a net, after tax basis? Have reduced tax rates given rise to situations where employers are then able to reduce employment packages?

- It does not appear that the Productivity Commission has considered alternative mechanisms that could be implemented to compliment, or indeed replace, the current regional and remote taxation arrangements (despite this being part of the stated scope of the study). For example, PVW Partners had put forward the Alaskan State model in its submission as an alternative worthy of consideration.

PVW Partners is a regionally owned and operated North Queensland based firm providing taxation and business advisory solutions for every stage of business growth and development. We believe in the potential of Australia's regional communities and regionally based businesses to make a strong contribution to the national economy and are proud of the role we play in the growth journey for many Northern Queensland family owned businesses.

Our firm advises over 550 privately owned businesses and family groups, with the bulk of those clients impacted in one way or another (and in varying degrees) by Remote Area Tax Concessions and Payments.

PVW Partners argues that the Productivity Commission has a real opportunity to recommend changes to the current system to promote:

- The development of Northern Australia;
- Grass roots economic stimulus;
- Growth for sustainable communities, thereby easing the pressure on capital cities;
- The public service decentralisation agenda of all sides of politics; and
- A new wave of decentralisation for our larger corporate groups.

By and large, PVW Partners believes the Productivity Commission's Draft Report has missed an opportunity to initiate these types of positive policy reforms for regional Australia. In the submission which follows, PVW Partners has outlined its core concerns and the wide-reaching repercussions if the recommendations made in the Draft report were to become policy and legislated by the current or any future Government.

<u>Response to Productivity Commission Draft Report</u>

Please note PVW Partners has limited this submission to its key areas of concern and has not addressed every single finding or recommendation listed in the Draft Report.

1. ***THE ZONE TAX OFFSET (ZTO)***
   Draft Recommendation 5.1 Abolish Zone and Overseas Tax Offsets

   As outlined in its original submission, PVW Partners advocates the objectives of the ZTO around uncongenial climatic conditions, isolation and a relatively high cost of living are all as relevant today as they were in 1945, if not more so.

   The ZTO should not be abolished: it should be retained as part of the bundle of measures that all governments use to fund initiatives to assist people, businesses and communities in regional and remote areas. The ZTO should be reinstated to, and maintained at a relevant share of after tax income. Based on the findings of the Draft Report, this would see the ZTO maintained at about 2.0% of average after tax income (which for example would see the Zone B offset increased from $57 to $950).

   The divide between city and country has broadened over the decades and it is now, more than ever, difficult to attract and retain people in Northern Australia. High cost of living pressures include, but are certainly not limited to, electricity prices due to market monopoly, groceries, insurance, travel (such as airfares and fuel), medical care and school fees (especially boarding fees necessary for those living in our most remote regions). Remote Australia in particular suffers from limited "digital inclusion" to the point where its reasonable to argue that many people in regional and remote Australia are in fact "digitally excluded".

PVW Partners believes equality should be key in the policy objectives. Currently taxpayers in Northern Australia pay the same rate of tax but do not receive or have access to the same level of infrastructure and services as our capital city counterparts. We recognise and appreciate there are a range of measures by which Government invests in Regional Australia, however only a limited number of those benefits are received directly by Regional Australians and the ZTO is arguably the only direct and grassroots measure provided by the Federal Government.

The Draft Report refers to the manner in which the Federally collected GST revenues are then allocated to the States and how horizontal fiscal equalisation should result in increased investment in Regional Australia. The distribution of GST revenues to State and Territory Governments is then reliant on that State Government making appropriate investment decisions for the benefit of its regional and remote communities. The mere existence of a horizontal fiscal equalisation methodology that recognises the costs of delivering regional and remote services and infrastructure does not automatically mean that services and infrastructure spending follows suit.

With the policy currently delivering just $57 annually to many people across Northern Australia in Zone B, PVW Partners does not believe the concession or payments meet the objectives. The policy in its current form fails to provide real or meaningful assistance to thousands of people. That in itself does not mean it should be abolished. Rather, the opportunity exists to reform and revitalise the mechanism to deliver on its objectives.

As outlined in the Remote Area Tax Concessions and Payments Productivity Commission Issues Paper, inflation has eroded the real value of the ZTO and Remote Area Assistance (RAA) to the point where it is worth less than one per cent of average after-tax income today. It does not adequately reflect varying degrees of demographic, infrastructure and cost of living changes occurring across Northern Australia. PVW Partners does not agree with that Draft Report finding that there is no compelling justification for a zone tax offset in contemporary Australia:

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

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

PVW Partners believes the ZTO is already too low and advocates for an increase which would make a meaningful difference to the lives of regional Australians, while providing greater incentive for people to move to the regions and particularly assist in the development of Northern Australia. The recommendation to abolish the ZTO would present a lost opportunity and would only serve to put further financial pressure on regional residents, at the same time removing the millions of dollars in "bottom-up" economic spend which the ZTO delivers to regional businesses and economies.

The legislation passed earlier this year to provide $1,080 in tax relief via the low- and middle-income tax offset for many taxpaying Australians benefits not only those taxpayers, but also their families, the communities in which they live and our economy as a whole. Both our Prime Minister and Treasurer have reflected on the positive economic stimulus provided by letting Australians keep more of what they earn (we do recognise the political expediency in their reflections, but also recognise the potential economic benefits). Appropriate reductions in taxes increases the consumption power of taxpaying Australians and this provides grass roots economic stimulus where they spend their money.

Increasing the level of regional and remote area tax concessions provides an opportunity to double down in Regional Australia on the economic stimulus provided thus far by the changes to the low- and middle-income tax offset. The positively magnified and multiplied effect in our regional economics would facilitate not only recovery efforts (e.g., in the flood impacted areas of Northern and Western Queensland and also the droughted areas throughout Queensland, NSW and into Victoria), but also help build resilience and sustainability throughout Regional Australia.

Without government assistance to help make regional communities more attractive places to work and live, there is every likelihood our capital cities will continue to be over-populated which creates significant pressures on infrastructure, service delivery areas such as health and education and housing affordability.

The draft position of the Productivity Commission reflects an increased urbanisation of Australia and the weakened voice of regional Australia. We believe the ZTO shouldn't be solely a monetary based proposition and should be looked at from a wholistic viewpoint which reflects the importance of regional Australia on a national scale.

To attract and retain population in Northern Australia- a key necessity for the retention of sustainable communities- regional economies need:

- Enabling infrastructure and catalytic projects;
- Aligned government (local, state and federal) policies to facilitate the above; and
- Progressive policy settings (include Remote Area Tax Concessions and Payments) to enable the private sector to invest in and grow local economies for job creation.

With the right reform, the ZTO has a strong role to play in economic decision making for individuals and their families. That can include where to live, levels of education, jobs, business and economic investment in a particular region. Enabling our regions to attract, grow and retain population is a key to the future economic success of the many communities across Northern Australia.

PVW Partners strongly encourages the Productivity Commission to further investigate its findings around the ZTO and argues the case is strong to expand the existing ZTO. **We do not support in any way the abolishment of the ZTO.**

2. ***Draft Finding 2.4 – Although life in remote Australia has a unique set of challenges, many Australians chose to live there because of the pace and quality of remote life, or because of close personal or cultural attachment to places or to communities. Others move to remote areas in pursuit of economic opportunity.***

   Life in Northern Australia can be challenging with the 'tyranny of distance' imposing limited access to essential and emergency services, while often offering inadequate transport infrastructure, fewer educational options and diminished employment opportunities. Access to the full suite of Commonwealth taxpayer-funded services, and to the lifestyle and recreational pursuits that many Australians take for granted, is for many an aspiration, not a reality.

   The Productivity Commission Draft Report states throughout that many Australians "choose" to live in regional Australia. PVW Partners advocates that this terminology, particularly where used as a base for findings, makes many assumptions which require further investigation. The suggestion of choice of location is then apparently used as justification for the draft recommendations that regional and remote tax concessions should be wound back or abolished - why provide a benefit or incentive if individuals choose to live in a place anyway?

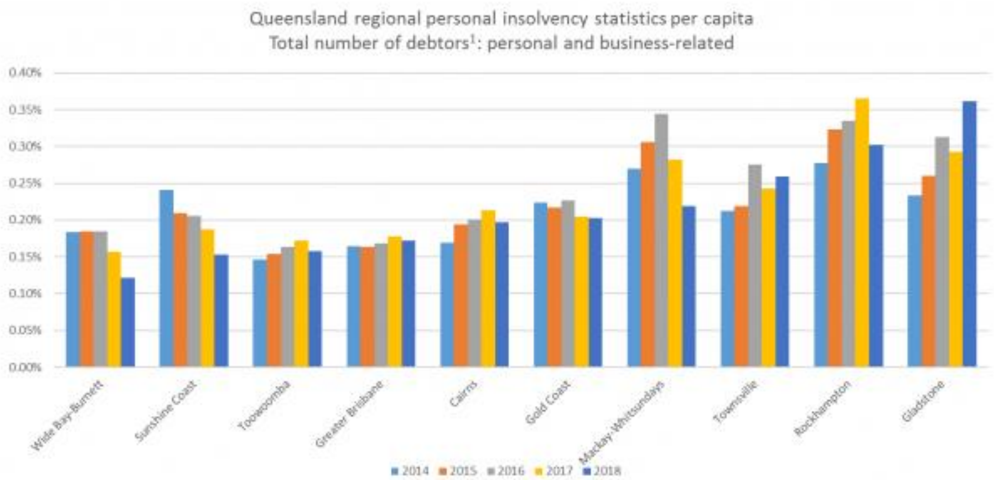
   For many people in regional Australia, whether it be a farmer, a miner or a supplier / service provider to those industries (amongst others), they do not simply "choose" to live in regional Australia. They are anchored in the regions which enable them to do their core business, earn an income stream and put food on the family table. Many of these types of clients that PVW Partners work with are third or fourth generation- they did not "choose" where they were born or the family business established, however, their livelihood is now dependent on being located in regional Australia.

3. ***Draft Finding 5.2 – There is no case for Government to provide company tax offsets specifically to business in remote areas. Governments should focus on creating successful business environments regardless of their locations.***

   This draft finding goes directly against the universal sentiment shared with the Productivity Commission Round Table held in Townsville on the 4th of April 2019.

   Regional businesses face challenges which their capital city counterparts don't, including much higher insurance premiums and inflated electricity costs, particularly in areas such as North Queensland where there is no competition in the electricity market.

   This is apparent when looking at Australian Financial Security Authority data which, on the per capita reading, shows those businesses under financial stress in Queensland are predominately located in the centre and north of the State.



[1] Includes: Bankrupts (Parts IV and XI of the Bankruptcy Act 1966); Debt agreement debtors (Part IX of the Bankruptcy Act 1966); Personal insolvency agreement debtors (Part X of the Bankruptcy Act 1966)

AFSA & ABS

PVW Partners advocates for a change in the current policy in Australia to incorporate businesses as well as individuals into the ZTO. For regional centres to remain competitive and attractive places to do business, more needs to be done in the form of enabling policies.

An example of this could be the attraction of graduates who possess in demand skills to the regions by forgiving their HELP debts, similar to programs already initiated to get medical graduates out in into rural and remote regions.

The potential benefits arising from meaningful reform options are limitless. PVW Partners has outlined what it believes to be the core benefits below:

- With the right stimulus in place, regional Australia's business owners will be empowered to employ more people, put more money back into their operations and help create prosperous local economies.
- A geographically spread national population would allow for the pressures to be taken off capital cities in areas such as transport, housing, hospitals, schools and other infrastructure. This would allow for the creation of sustainable communities across Australia, including Northern Australia.
- Investment in the regions provides a higher rate of return than further investment in the capital cities which sees diminished returns in investments as recently witnessed with the demolishment of stadiums in New South Wales.
- Supports the Federal Government agenda to decentralise Government Departments and move portions of them to rural and remote regions of Australia (with a similar impetus created for Australia's larger corporates to decentralise their activities).
- Tool to encourage migration, thereby creating business, economic and jobs growth across rural and regional Australia.
- Grass root economic stimulus means more cash in the hands of taxpayers in regional cities to spend in their local economies.

As achieved with other regional tax incentives such as the regional Payroll Tax rate which exists in jurisdictions across Australia, there is a strong case which supports incentives for regional businesses to ensure local economies continue to grow and flourish.

4. ***FRINGE BENEFITS TAX (FBT) REMOTE AREA CONCESSIONS***
Draft Recommendation 81. Tighten Tax Treatment of Employer-Provided Housing
Draft Recommendation 8.2 Remove Concession for Employee-Sourced Housing
Draft Recommendation 8.3 Tighten Tax Treatment of Other Goods and Services

The draft recommendations pertaining to FBT are of great concern to PVW Partners and if implemented by Government would undoubtedly have a significant adverse impact on many of our clients.

The proposed changes outlined would be a major burden on regional Australians which we believe would result in a compliance nightmare, particularly for those in the Agribusiness sector, that the family and other small businesses in regional Australia are ill-equipped to deal with. There are thousands of farmers across regional Australia who currently include board as part of their employment package to attract workers to rural and remote areas. Indeed, it is a core expectation of candidates for such roles that will be provided with board and meals. Finding staff to live and work in isolated areas known for their harsh conditions is difficult at the best of times.

We do not agree with the suggestion that "employers providing housing to employees are disproportionately likely to be larger businesses". In our experience, we agree that there are likely a small number of large businesses each providing housing to a relatively large number of employees. However, in addition to that we expect that there is a large number of small businesses each providing housing to a relative small number of employees (perhaps to only one or two employees) While large businesses are better equipped to deal with additional compliance obligations, are in all likelihood are already preparing and lodging FBT returns, there are a large number of small business to whom an FBT return will be a new compliance obligation (and an expensive, time consuming and confusing one at that).

If the FBT changes recommended by the Productivity Commission were to be legislated, the incentive of board would be abolished, and workers would either be charged for their accommodation or employers forced to do complex, time consuming and costly FBT returns. There could also be unintended outcomes such that the family that owns and lives on a remote property (sometimes for generations) become subject to FBT due to the structures within which these properties are held (the homestead most frequently not being on a separately titled freehold or leasehold interest in the land upon which the agri-business is conducted).

From a practical sense, the proposed changes would be untenable. How would market values be calculated for board on a property which is 500 kilometers from the nearest town? This also applies to the provision of meals. In many cases, a supermarket or fast food outlet could be a five-hour drive away. Limiting access to the exemption which currently applies to meals for primary production employees is not a workable or practical outcome.
We would welcome a reduction in complexity of the exemption for meals by removing the limitation of meals ready for consumption.

The adverse impact to the proposed changes to the FBT would not be limited to the agribusiness sector. PVW Partners also has serious concerns about the impact on vital regional workforces such as teachers, nurses and emergency service workers. If the incentives for these workers to live and work in rural and remote areas are removed or significantly reduced, there is every likelihood those vital service provisions will come under threat as Governments will undoubtedly struggle to attract staff.

Regional Australia's mining industry would also be significantly impacted, with the Productivity Commission Recommendations all but encouraging a fly-in, fly-out workforce which would undermine the ability go grow and maintain local workforces in regional towns and communities.
The suggestion that housing, utilities and airfares provided by companies should be taxed as fringe benefits is extremely concerning and would have far reaching implications. By taxing incentives provided to attract more people to rural and regional areas, those incentives would ultimately become a lot less attractive and fail to serve their intended purpose.

PVW Partners advocates that changing the remote area housing exemption to a 50% concession is acceptable where the exemption is partially retained for instances where there is an operational requirement and the accommodation is on the employer's work premises (or on the premises of an associate of the employer). For examples, the exemption would remain for accommodation provided on agricultural property, health workers living at on-site accommodation at the hospital, police officers living at a house attached to police station.

Conclusion:

As both a regional business itself and in representing its clients from across Northern Australia, PVW Partners strongly supports the provision of meaningful tax incentives for individuals and businesses who live in regional and remote areas of Northern Australia.

The feedback we have received from regional Queenslanders is that they would like to see Government offer more support for regional communities, not less. PVW Partners believes the position of the Productivity Commission that tax shouldn't be used as a mechanism for encouraging regional development is a flawed viewpoint and one which requires review.

We strongly advocate that the Productivity Commission should in fact be looking at ways the Australian tax system can be better utilised to encourage and support more development and stronger economies in rural and regional areas of Australia.

Should you have any queries or wish to discuss any aspect of this submission, please contact Carl Valentine

Your sincerely,

Carl Valentine
Managing Partner
PVW Partners