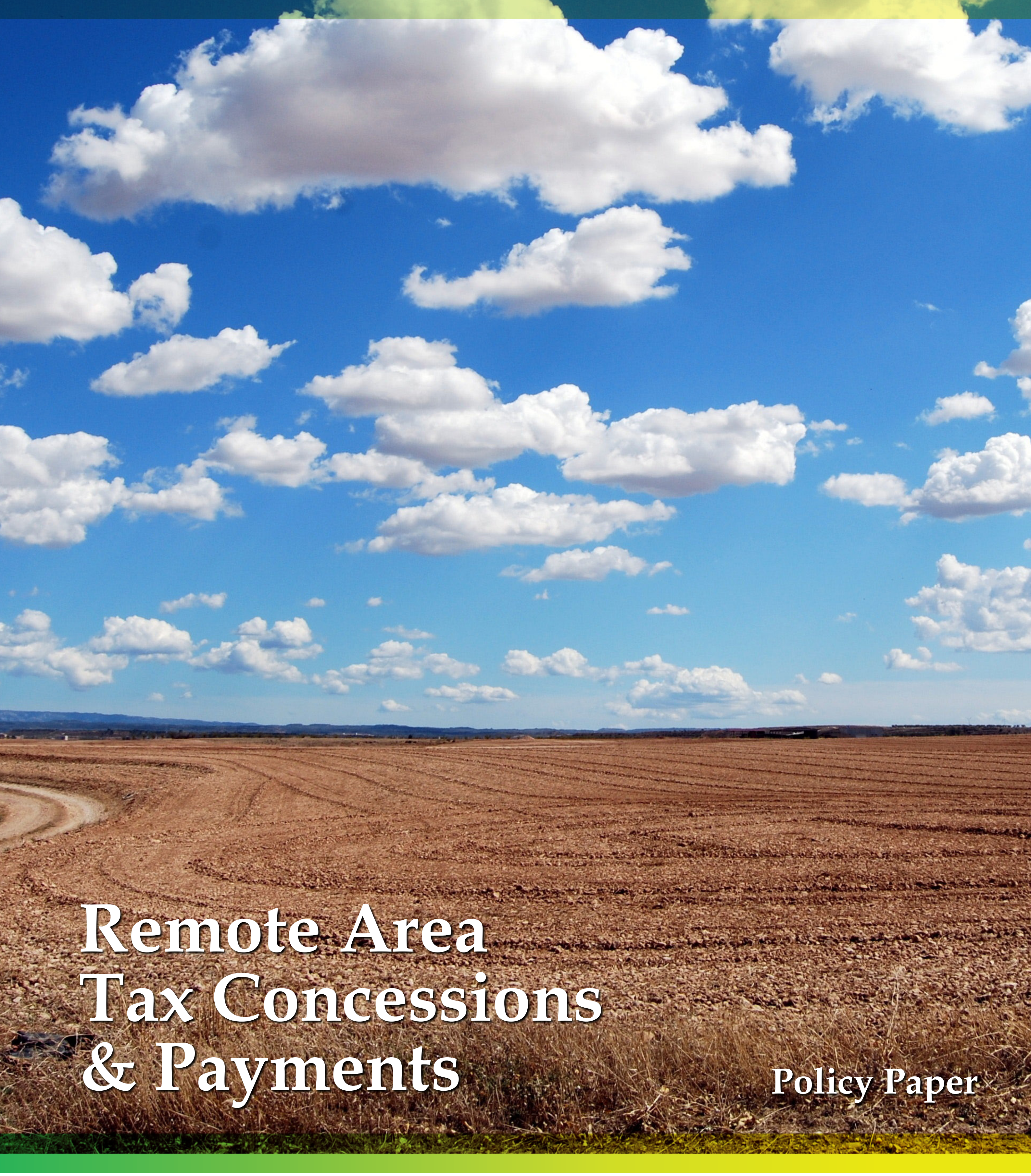

Remote Area Tax Concessions & Payments

Policy Paper

Author: **Kristian Jenkins**

March 2020

PAGE RESEARCH CENTRE

Page Research Centre © 2020

Contents

1. Background

The Productivity Commission has conducting a review of Remote Area Tax Concessions and Payments, publishing a draft report on 4th September 2019[1]. Subsequently seeking public and stakeholder feedback before submitting their final report and recommendations to the Federal Government in February 2020.

The Page Research Centre has made a submission to the Commission in October 2019[2], with a request that the Commission's proposed recommendation to abolish the zone tax offset altogether (Draft finding 5.1) be reconsidered in favour of implementing a trial scheme aimed at testing the validity and efficacy of a restructured policy.

Subsequently the National Party Policy Committee has commissioned the Page Research Centre to write a more detailed policy paper in response to the Productivity Commission's draft recommendations, with an emphasis on a comparative analysis of similar special area tax benefit regimes in other countries.

---

[1] Remote Area Tax Concessions and Payments, *Productivity Commission Draft Report*
https://www.pc.gov.au/inquiries/current/remote-tax/draft/remote-tax-draft-overview.pdf
[2] Page Research Centre, *Submission to Productivity Commission Inquiry into Remote Area Tax Concessions and Payments*
https://www.pc.gov.au/__data/assets/pdf_file/0004/245974/subdr105-remote-tax.pdf

2. Regional Australia is vital for the prosperity of all Australians

Australia's regions are critical to the health of the national economy. Australia's capacity to pay for our imports of goods and services at a reasonable exchange rate largely depends on the output of firms and workers in regional Australia. Close to 90 per cent of Australia's merchandise exports are produced by the resources and agricultural sectors, the overwhelming majority of whose firms and workers are based in regional Australia.

Our tradeable industries must compete in global markets to survive. Australia's non-tradeable sectors, many of which are centred in metropolitan areas, can often pass on higher costs to consumers and taxpayers. The agricultural and resources sectors cannot. Healthy regional communities play a vital role in the long term viability of these industries, by providing services and economic and social infrastructure to ensure these regions remain places where people want to live and work.

Throughout Australia's history governments have always recognised the complementary nature of the capital cities and rural & regional Australia; that Australia is strongest when we have both strong cities and strong regions. A balanced mix of policies to ensure neither urban nor regional Australia are left behind has served Australia well for over a century. Any changes to this balance should be undertaken only after careful consideration. This is particularly important given the protracted drought affecting much of eastern Australia which is posing severe challenges to many farmers and regional communities. Any decision to reduce money available to people and communities during drought will cause additional hardship and hinder the government's current efforts to provide relief to rural communities.

And the setbacks and hardships facing regional Australia have been further compounded in summer 2019-2020 by the devastating bush-fires that ravaged large swathes of the country. In addition, it is likely that increasing environmental legislation designed to ameliorate the effects of climate change may inhibit productivity in the agricultural and primary resources industries, which in turn will have a disproportionately negative effect on regional, rural and remote communities.

Regional communities are currently dealing with a perfect storm of interconnected destructive events in addition to the inclement conditions they ordinarily face.

It is timely that the Productivity Commission reviews the Remote Area Tax Concessions and Payments regime, but especially given the current circumstances, any recommendations that endorse a diminution of concessions must be carefully considered – if anything, an increase in the available concessions ought to be recommended.

3. Comments on draft report

The Page Research Centre supports the Government's initiative in asking the Productivity Commission to undertake this study to ensure that remote area tax assistance remains fair and contemporary.

The draft report is timely and contains much valuable information, particularly given, as the Commission notes, that some of the measures in the tax system to support regional communities date back to the Second World War and have not been substantively reviewed or updated in decades.

However, the Commission's key finding, that the Zone Tax Offset (ZTO) is an 'ineffective and blunt' instrument that should be abolished is not supported. In our view the Commission has been too quick to dismiss the policy rationale and benefits of the ZTO and the potential ways in which it can be made more effective and fit-for-purpose.

4. DRAFT FINDING 5.1: There is no compelling justification for a zone tax offset in contemporary Australia

This finding is not supported. It is important that the Government continue to support regional Australia to ensure that any assistance provided through the tax system remains appropriate and effective.

As the draft report notes, the rationale for remote area income tax concessions when they were first introduced in 1945, was to compensate people for the relatively high cost of living, isolation and difficult climate in remote areas of Australia.

These factors remain just as relevant in much of rural and regional Australia today as they were when the scheme was introduced. As the draft report acknowledges (Draft Finding 2.3), the cost of living in regional areas remains higher than in metropolitan areas. This includes higher costs and fewer choices in terms of services and utilities, particularly electricity, gas and water, education, health and access to medical specialists, insurance premiums as well as essentials like food, groceries, fuel and other transportation costs.

Despite these challenges, investment in regional Australia has proven in the long run to be a worthwhile and productive use of Australia's scarce resources of people and capital. The Government's Northern Australia White Paper (2015), for example, found that while accounting for 40 per cent of Australia's landmass, northern Australia had only 5.9 per cent of Australia's workforce but produced 11.7 per cent of national GDP[3]. The average worker was around twice as productive as their southern counterparts. While just 60,000 Australians live in the Pilbara region, it produces more economic wealth than around 100 countries.[4]

Greater development in regional Australia would have other positive spill-over benefits. Australia has one of the most concentrated populations in the world, ranking tenth most urbanised in 2018 among OECD countries.[5] Studies have shown Australia has an unusual population distribution, with a greater share of our population residing in larger cities relative to many other countries.[6] This results in economic losses ranging from lost productivity due to congestion, to high and ever rising costs for the provision of infrastructure in major cities due to limited supply of land and expensive construction challenges.

[3] Australian Government 2015, *Our North, Our Future: White Paper on Developing Northern Australia* https://www.industry.gov.au/sites/g/files/net3906/f/June%202018/document/pdf/nawp-fullreport.pdf
[4] Remplan Economy, *Economic Profile, Pilbara Region* https://www.economyprofile.com.au/pilbara/industries/gross-regional-product
[5] *UN World Urbanization Prospects 2018.*
[6] See for example, Arribas-Bel, D., Sanz-Gracia, F. and Ximenez-De-Embun D. 2012, "Kangaroos, Cities and Space: a first approach to the Australian urban system", *Region et Developement,* no. 36, p. 166; Ellis, L. and Andrews, D. 2001, *City Sizes, Housing Costs, and Wealth,* RBA Research Discussion Paper, 2001–08, October and *The Economist* 2016, 'Hot in the city', 2 April http://econ.st/1X47PRj

Studies have shown that Australia's population concentration in the capital cities causes structural constraints in the capacity to provide new housing at reasonable cost.[7] Our major cities are so developed that they need costly tunnels and public transport systems to ease their congestion. Providing services in major cities is getting more expensive by the day. Government subsidisation of public transport in the capital cities means Australia's public transport fares cover some of the lowest share of the costs of providing public transport in the world.

There are a number of other non-market impediments to economic advancement in the regions, particularly for new development projects. People in regional Australia face hurdles not faced by those in the capital cities. Most of Australia's cities were founded before the 20th century. Our tax and regulatory framework is set for the conditions of a developed country, which inhibits growth opportunities in developing parts of our country. While it is appropriate that Australia has sound planning and environmental rules and processes, it is a fact that these rules act as a far greater impediment to developing new areas and greenfield projects than those people faced when our capital cities were developed.

High taxes are an impediment to the development of smaller towns that are remote from Australia's major population centres. Investing in smaller towns is often more risky than larger ones, especially if the investments are large. Because there are fewer customers to spread costs, prices are often higher, or payback periods longer. The asymmetric nature of taxation means that risky investments are more exposed to higher tax rates than lower risk investments. Win and the government takes its cut. Lose and the government is not there to help. When Australia's major cities were developed taxation shares of GDP were in single digits. Now they are much higher.[8]

The point here is not that these market and government impediments to economic growth in regional Australia justify bad policy and wasteful government spending. Governments in Australia since before Federation have recognised that for Australia to continue to grow and prosper long-run considerations of national economic development and dynamic efficiency issues must be taken into account when setting policies affecting regional Australia. A 'one-size-fits-all' approach does not work well. Regulations made in a capital city to regulate an entire jurisdiction can have perverse effects for those living in the country.

The current ZTO has gradually been allowed to move out of alignment with the original intention of the policy. The reasons why this has occurred can be debated, but the policy rationale remains.

[7] RBA 2014, *Submission to the Inquiry into Affordable Housing,* submission to the Senate Economics References Committee, February, pp. 8–9.
[8] Barnard, A. 1988, *Australians: Historical Statistics,* Vamplew, W. ed., p. 256.

5. DRAFT RECOMMENDATION 5.1: The Australian Government should abolish the zone tax offset and the overseas forces tax offset

In making this recommendation, the Commission also notes that eligibility has not kept up with change in remote Australia, and nearly half of ZTO claimants live in large coastal regional centres. The draft report also notes that inflation and growth in wages have substantially eroded the value of the ZTO. It concludes that the economic and employment impacts of the concession are likely to be small, and there is no evidence to suggest that the ZTO currently affects where people choose to live and work.

This recommendation is not supported.

While the erosion of the value of the ZTO is undeniable, the rationale for it or a similar or better targeted scheme remains. In light of this, the more appropriate response is to explore ways to improve the effectiveness of the scheme.

Disadvantage due to geographic isolation is not limited only to the smaller communities, but is also found in the larger centres and to formulate policy on the future of these assistance measures based on the size of communities in areas remote from the major population centres would adversely impact on the Government's overall policy objectives for regional, remote and isolated communities.

The three existing measures, Zone Tax Offset, Remote Area Allowance and the Fringe Benefits Tax and Remote Area Concessions are part of an important suite of public policies aimed at encouraging more people to remain in and move to the more isolated areas of Australia.

Any decision on the future of these measures must only be taken after further consideration of their contribution to overcoming the many factors impacting on the affected communities, including: higher living costs; lack of choice in goods and services; remoteness from and limited access to essential services such as health and education; unpredictable swings in social and economic conditions from weather events and associated costs for insurance and mitigation; lack of infrastructure and public transport services; population growth through decentralisation from the capital cities; and challenges in attracting workers to essential primary production and mining projects.

While the dollar value of each of the assistance measures paid to individuals may seem small to those not living in the remote and isolated areas, in total they provide a considerable contribution to the economy of the communities involved and an incentive for people to work in the remoter parts of Australia.

The Commission states in the draft report that market wages should adjust to reflect any higher returns to economic activity in regional and remote Australia, allowing people to afford the higher costs, and hence obviating the need for the zone tax offset. This may be the case for workers directly employed in large capital-intensive mining projects who enjoy high wages, like those in the Pilbara example cited above. However, while such projects are important contributors to regional and national wealth, the number of workers directly employed by such projects represent only a small proportion of people in regional Australia.

Economic conditions in regional Australia tend to be more volatile than those in the larger cities, due to swings in commodity prices and climactic conditions such as the current prolonged drought conditions. The small size of many regional labour markets increases economic vulnerability for many small businesses and workers.

The number of submissions and comments to the Commission inquiry that called for an expansion of the ZTO, shows how widely valued it is to people living in remote and regional Australia. There may not only be an argument to better target them, but also to increase their dollar value and hence contribution to achieving the stated policy objectives.

6. Options for reshaping zone tax offsets should be explored further

In addition to bringing the value of ZTOs up to date with living cost increases for those in the most remote locations, there would be merit in exploring options for providing additional more targeted regional support.

Such a scheme would have greater potential to drive regional development and the movement of people to remote areas of Australia.

An option would be to implement a trial scheme providing a targeted and more substantial tax rebate to individuals in selected tightly defined areas with substantial economic development potential. This will create a real incentive for workers and families to move to undeveloped but promising areas of our nation. The amount of rebate to be provided would need to be substantial enough to change behaviour and spur development and population growth in a region.

These trial areas could be selected for their potential to: create sustainable economic development and growth; link with existing transport corridors and encourage development over a broader area; reduce welfare dependency in remote areas; and their capacity to contribute a saving to the budget and reduce indigenous disadvantage.

The implementation of such a scheme would need to have clear performance targets and be subject to rigorous independent review after five years, with any extensions or widening of the program contingent on clear evidence of success.

As the Commission's draft report indicates, were the ZTO to be continued then the boundaries for eligibility should be redrawn using the remoteness areas published by the Australian Bureau of Statistics (ABS), to bring it in line with contemporary circumstances. Currently large cities like Cairns, Darwin and Townsville lie within Ordinary Zone B, although the population there is no longer subject to the economic disadvantages associated with remote living like they were in 1945 when the current boundaries were established.

Using the ABS categories would have the additional benefit of being updated every 5 years when they are reset according to the most recent census. This would minimise the problem of boundary creep where growing population centres who no longer suffer the draw backs of remote living remain eligible for the ZTO beyond the point where they should.

The draft report also recommends using the ABS categories of *remote* and *very remote* as eligible zones for future ZTO concessions rather than the three zones currently used. This would reduce the number of eligible claimants by about three-quarters.

This would represent a baseline saving of around $39M for the treasury. In that case an increase in the ZTO to the remaining eligible claimants in the two new categories of *remote* and *very remote* could be justified.

One of the rationale for abolishing the ZTO is that it only represents a tiny fraction of after-tax income for recipients, so that removing it would not have a significant economic impact. This is partly because there has been no increase in it since 1993-1994 and it has not been adjusted to keep pace with inflation. As a consequence its real value has halved since the last increase in 1993-1994.

However, rather than that being reason to abolish the ZTO, it should be reason to significantly increase it. For the reasons laid out previously, the rationale for the ZTO still exists with remote communities in Australia subject to significant and inequitable disadvantage when compared to metropolitan areas.

Some of the cost of an increase could be paid for by the savings made from reducing the number of eligible claimants. However, if there was a significant increase in the ZTO then it would mean a decrease in tax revenue rather than eliminating lost tax revenue, which is part of the rationale for abolishing the ZTO.

Currently the base rate rebate for the existing Special Areas is $1,173 and for Ordinary Zone B is $338. As the draft report notes, this does not represent a significant economic benefit for recipients and would not therefore represent a significant loss if it was taken away.

A significant increase in the ZTO to remaining eligible claimants in the two newly defined zones (*remote* and *very remote*) should therefore be considered, especially given the recent natural disasters that have devastated many of these communities.

While these figures remain somewhat arbitrary pending further statistical analysis, an increase to $10,000 for recipients in *very remote* zones and $5,000 for those in *remote* zones would represent a significant concession to account for the economic disadvantages they face. An additional benefit of a larger concession could be that it could properly incentivise people to live in these areas, which in turn would further benefit the broader community and help boost economic development.

One way of limiting the cost of this proposed increase would be to establish a progressive tiered system where the largest rebate of $10,000 is available only to those on the lowest incomes, with a progressive decrease in the amount available as income increases, up to a cut-off point where no rebate is available for earners over a certain income.

Any increase in the ZTO would have to be matched by a commensurate increase in the Remote Area Allowance (RAA) made available to income support recipients to ensure it remained equitable.

Such a policy would need to be costed by the Parliamentary Budget Office to determine its viability, but it is well justified given the significant economic disadvantages faced by remote communities, historically and especially contemporaneously with the recent natural disasters.

7. International comparative analysis

The Productivity Commission Draft Finding 4.2 (The ZTO is flawed and outdated) is supported by the evidence, but the Draft Recommendation 5.1 (Abolish zone and overseas forces tax offsets) is not supported. As recommended above, it would be fairer to reshape the ZTO rather than abolish it altogether.

An alternative to the recommendations above may be found in international comparisons. Other nations with remote areas have different tax concessions that may be instructive to the Australian context.

Below are descriptions of four nations with comparative remote area tax concessions – USA, Canada, Norway and Denmark.

1. USA - Opportunity Zones

The special tax benefits system in the United States differs from the Australian system in that it doesn't specifically target rural and remote communities only. Qualified Opportunity Zones (QOZ)[9] are designed to spur economic development and job creation in distressed communities. Some of these zones will be in rural and remote communities, but not all.

QOZ's are new, only added to the American tax code in December 2017, coming into effect in April 2019. They are designed to spur economic development by providing tax benefits to investors. Investors can defer tax on any prior gains invested in a Qualified Opportunity Fund (QOF).

Rather than universal tax and benefits concessions like those available in Australia, the American model is more targeted. It is only available to investors who invest eligible capital into the zones under certain conditions.

This system is aimed at spurring economic and business development in these zones rather than mitigating the economic disadvantages faced by these communities as with the Remote Area Tax Concessions and Payments in Australia.

If Australia was to implement a similar scheme it would represent a significant shift away from the current model, both in rationale & intention and practice & application. However, since this is a positive policy, meant to spur economic development, rather than a passive policy, meant to compensate for disadvantage, it recommends itself as an attractive policy consideration.

---

[9] IRS, Opportunity Zones https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions

2. Canada - Northern Residents Deduction

The Canadian model is more similar to the Australian model in that it is available to most people in communities in the remote north of the country. And like the Remote Area Tax Concessions and Payments, the Northern Residents Deductions[10] exist to provide relief to those who live in a prescribed zone and recognise that such individuals are often faced with a higher cost of living, environmental hardships and limited access to services.

The Northern Residents Deductions consists of a residency deduction (for living costs) and a deduction for travel benefits. There is a daily tax deduction available, ranging from $5.50 through incremental steps to a maximum of $22 per day per person. The main purpose of this component is to compensate for the higher food and utilities costs in these communities.

Another cost prohibitive element of living in the remote north of Canada is the large travel expenses people must incur if they travel beyond these remote zones. The second component of the Northern Residents Deductions is deductions for travel costs. For a more detailed description of the specifics of this concession please refer to the Canadian Government information document in the footnote at the bottom of this page.

The advantages of the Northern Residents Deduction model is that it specifically targets the costly elements of living in these remote areas. In that sense it is different from the ZTO and the Remote Area Allowance in Australia that are general and available to anyone living in the zones to spend as they choose, but similar to the Fringe Benefits Tax allowance which aims to reduce housing costs.

When considering how to reshape the ZTO this Canadian model offers a useful alternative to the Australian model and should be carefully considered.

[10] Government of Canada, Northern Residents Deduction
https://www.canada.ca/content/dam/cra-arc/formspubs/pub/rc4650/rc4650-19e.pdf

3. Denmark[11]

Tax concessions available in Denmark are similar to the Canadian model in that deductions are available on travel costs and food & accommodation & double housekeeping costs. However, it differs from the Canadian and Australian models because the concessions are available to anyone, not only those in remote areas.

a) Deduction for transport between home and work:
"If you have more than 24 km to and from work (that is more than 12 km each way), you are entitled to a deduction for transport between home and work no matter the means of transport."[12]
This concession is extended for people who live in a **peripheral municipality** (yderkommune) or on **certain small islands** and who travel more than 120 km between home and work every day.

b) Food and accommodation and double housekeeping:
A deduction for double housekeeping or for food and accommodation is available to those who have a temporary workplace when the distance between the temporary workplace and their normal place of residence is such that it is impossible for them to spend the night at their normal place of residence and travel back and forth every day.

Apart from one clause in the deduction for transport between home and work available to people living in certain remote areas, these tax concessions are not specifically targeted at remote communities. For this reason the Danish model is probably not especially instructive to circumstances in Australia. However, in common with the Canadian model it targets cost of living (food, utilities etc.) and travel costs. Since these costs are inflated in remote Australia, any proposed new model could consider ways to reduce these costs.

[11] Danish Ministry of Taxation https://skat.dk/skat.aspx?oid=2244504, https://skat.dk/skat.aspx?oid=2245171
[12] Danish Ministry of Taxation https://skat.dk/skat.aspx?oid=2244504

4. Norway - Action Zone

Like in Canada and Australia, there are genuinely remote communities in far northern Norway who face similar disadvantages, such as cost of living, poor living standards, high unemployment and population decline.

As a consequence the Norwegian government offer tax concessions to people and businesses operating in those areas.

The Action Zone[13] model in Norway offers concessions to both businesses and individuals in the remote zones. There is a differentiated model, but businesses in the most remote zones pay zero tax on social security contributions (payroll tax), and both businesses and individuals benefit from reduced tax on electricity consumption.

In addition, individuals have lower rates of personal tax and can claim a reduction in student loan repayments (aimed at attracting younger people to these zones).

Taken together these levers represent a varied but also targeted tax regime aimed at ameliorating the various economic disadvantages businesses and individuals face in remote northern Norway.

In 2018 The Norwegian Ministries of Finance and of Local Government and Modernisation commissioned Samfunnsøkonomisk analyse AS[14] to evaluate the Norwegian scheme of regionally differentiated social security contributions.

The report is extensive and detailed, however it concludes that the Norwegian scheme of regionally differentiated social security contributions delivers on its objective of reducing depopulation in remote areas:

> *"Overall, the objective of the scheme of reducing or preventing depopulation in the most sparsely populated regions in Norway is clear and easily understood and is sought accomplished through theoretically convincing means. We therefore conclude that RDSSC addresses a well-defined objective of common interest."* P125

When compared to the Australian Remote Area Tax Concessions and Payments and the other international models, the Norwegian model is the most comprehensive and far reaching. The Australian, Canadian and Danish models offer concessions that benefit individuals only. The US model is aimed at attracting businesses and investors to the Opportunity Zones. Uniquely, the Norwegian model applies levers which are meant to attract both businesses and individuals to the Action Zone.

---

[13] Elisabeth Angell, Yngve Flo and Gro Marit Grimsrud, *The Rural And Regional Policy Of Norway*, Stein Rokkan Centre for Social Studies https://uni.no/media/manual_upload/Report_5-2016_Angell_Flo_og_Grimsrud.pdf, P62 onwards.

[14] Andreas Benedictow, Emil Cappelen Bjøru, Fernanda Winger Eggen, Vegard Salte Flatval, Marthe Norberg-Schulz, Marina Rybalka, Rolf Røtnes, Arne Stokka, Maja Tofteng and Lars Vik, *Evaluation of the regionally differentiated social security contributions in Norway*, Samfunnsøkonomisk analyse AS https://www.regjeringen.no/contentassets/7acc75557158472ba2760bf738f0eda2/evalueringsrapport.pdf

For this reason Australian legislators should carefully consider the Norwegian model when seeking to reshape the Remote Area Tax Concessions and Payments.

If Australia were to adopt the tiered tax concessions on payroll tax it is proposed there could be three tiers according to the ABS categories of remote and very remote. Areas outside of these zones would pay full payroll tax as normal, remote zones could have a partial reduction in the tax, while businesses in very remote zones could pay no payroll tax at all.

However, if this model were adopted further modelling would be required, along with costings by the Parliamentary Budget Office.

If adopted in Australia this model may need to have certain exemptions. For instance, the mining industry (and other attendant industries) operate in remote and very remote zones by necessity and therefore do not need a payroll tax concession to incentivise them to locate their business activities there. A sensible solution may be to exempt certain industries from any concessions.

Likewise with the other levers the Norwegian model uses. Any reduction in tax on electricity usage could only be made available to individual households and general businesses, with certain industries, such as mining, exempt from this concession.

The reduction in student loan debts to younger people moving to, returning to or staying in the Action Zone in Norway is meant to help reduce the problem of an ageing population in these zones. There is a similar problem in remote and very remote zones in Australia. However, like with the other levers reviewed, if this concession were made available in Australia a sensible exemption would be made in the case of people working in mining and other attendant industries, especially since those industries generally account for the disadvantages of remote living by paying staff above national averages.

5. Concluding remarks on the international comparative analysis

The US model is instructive in that it makes tax concessions available to businesses if they invest in the Opportunity Zones under certain conditions. Arguably this is more market friendly, less intrusive & top down and more likely to encourage business and investment activity, which in turn may create jobs in these zones leading to improved overall economic outcomes.

However, it diverges markedly from the current Australian model which aims to more directly lift the financial burden on individuals living in the remote zones.

The Canadian model should be carefully considered because it seeks to address the costly elements of remote living specifically, rather than being a general concession as in Australia. In the Canadian case concessions are made available for the cost of living (especially food and utilities) and the cost of travelling outside of these zones. Similar financial burdens rest on people living in remote zones in Australia, so emulating the Canadian model may be a sensible consideration.

The Danish model is also instructive. Given the vast distances people living in remote Australia may have to travel for work, deductions for transport costs to and from work could be a concession that has a meaningful impact on the cost of living for people in these communities.

Of the four international models reviewed, the Norwegian model is the most comprehensive and wide ranging. It is also the most targeted and specific in that all the levers it uses are meant to account for the economic burdens of remote living in that country. For that reason Australia has the most to learn from the Norwegian model. Cost of living relief with a reduction on tax on household utilities for individuals and businesses, combined with tax relief on payroll tax for businesses could be a sensible suite of concessions and may be appropriate in the Australian context.

8. Further Policy Proposals – Health and Education Services

The Canadian and Norwegian models are instructive in that they apply tax concessions that account for the specific elements of remote living that are cost prohibitive in those countries.

In Australia access to vital services like health and education can be especially expensive for people living in remote and very remote zones. It is inequitable that people in these zones should have to pay more to access these vital services than people living in metropolitan areas.

When considering reshaping the Remote Area Tax Concessions and Payments regime, legislators might make new concessions available to those incurring additional expenses when accessing health or education services.

For example, for those earning below a certain income, costs incurred accessing health and education could be tax deductible up to a maximum amount. That could include travel & accommodation costs and the actual costs of the service – hospital fees or private education fees.

However, perhaps such a regime would be fairer if deductions are available only on those costs incurred as a consequence of the inaccessibility of these services to remote communities. In such cases, hospital fees and education fees would not be deductible because they are levied on most people regardless of circumstances, but travel to and from the services and accommodation expenses such as hotel costs could be deductible.

For those in receipt of income support payments, grants could be made available to cover the additional costs incurred when accessing health and education services.

Extensive costings would need to be conducted by the Parliamentary Budget Office to test the viability and affordability of this proposal.

9. Concluding Remarks

Remote communities in Australia remain a vital part of the body politic and they service key primary resources industries such as agriculture, forestry and mining. Without these communities Australia's economic vibrancy would be undermined, not to mention the cultural loss the disappearance of these communities would represent.

However, there remain unique challenges to remote living in Australia and additional economic burdens that act as a disincentive to stay there or to move there. For these reasons the rationale originally given for establishing the Remote Area Tax Concessions and Payments regime still stands.

Nevertheless, the Draft Report of the Productivity Commission is right to point out that the current regime is out of date and not fit for purpose, especially the Zone Tax Offset component.

But rather than abolishing the ZTO as recommended in the draft report, it would be better to consider reshaping it. The current boundaries should be redrawn to be in line with the ABS zones and concessions should only be available to those living in *remote* or *very remote* zones, so that the third tier (Ordinary Zone B under the current regime) is abolished altogether. This would make more money available to increase the concessions available to those living in the remaining two eligible zones.

Another option would be to replace the ZTO with a new set of concessions altogether, and the international comparisons reviewed above offer a range of alternative levers that the Australian government could use in place of the ZTO.

And if none of the international models are viable in the Australian context some other form of tax concession may be more appropriate. Since the cost of accessing health and education services can be excessively prohibitive for remote communities, a compelling policy proposal could include concessions for costs incurred accessing those services.

The Page Research Centre does not support the Productivity Commission's Draft Recommendation that the ZTO should be abolished outright, unless it is reshaped or replaced by an alternative model. This report offers some substantiated alternatives that should be carefully considered as this process proceeds.

PAGE
RESEARCH CENTRE

Remote Area Tax Concessions & Payments

Policy Paper

Page Research Centre © 2020