

Remote Area Tax Concessions and Payments study
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

11 October 2019

Productivity Commission Draft Report Submission – Remote Area Tax Assistance

Dear Sir/Madam

1. The National Automotive Leasing and Salary Packaging Association (**NALSPA**) welcomes the opportunity to make a further submission to the Productivity Commission in relation to the findings, recommendations and information requests outlined in the draft report released for comment in September 2019, titled “Remote Area Tax Concessions and Payments – Productivity Draft Report” (**Draft Report**).
2. This submission seeks to address the broader context findings made by the Productivity Commission, with specific focus on the FBT remote area concessions. We have outlined below the proposed draft findings and recommendations which we are supportive of, as well as provided further feedback on the draft findings and recommendations where we are of the view that further consideration of economic consequences ought to be made.
3. Following on from our address of the broader context findings, we have also provided responses to the relevant information requests included within the draft report that we hope the Productivity Commission finds useful in finalising their report to The Treasurer.

Executive Summary

4. As outlined in this submission, NALSPA holds considerable concern with regard to the Productivity Commission’s draft recommendations relating to the tax treatment of employer-provided housing, the tax treatment of other goods and services concessions, and the Commission’s limited consideration of the contribution to regional development.
5. NALSPA does support the draft recommendation to remove the customary requirement limiting the broad application of the current employer-provided housing exemption.
6. NALSPA also argues that an updating of the parameters of remote areas would be a more effective means of achieving the Government’s objectives than reducing the scope of the FBT concessions and exemptions applying to remote area benefits.
7. NALSPA believes that the Productivity Commission has adopted a flawed approach to the questions raised in the Treasurer’s Terms of Reference. In our opinion this approach has produced a bias towards a desire to **restore tax neutrality** rather than the more economically-logical alternative of updating the remote area boundaries.

8. NALSPA has provided further data on the use of the current remote area benefit by its members, to aid the Productivity Commission in formulating their final recommendations. In determining the likely impact the Productivity Commissioner's draft recommendations, it is estimated by NALSPA members that the annual value of employee expenses currently salary packaged as remote area benefits would drop from its current level of \$87.5 million to \$6.88 million per annum, producing a **loss of in excess of \$80 million per annum.**

It is clear that the majority of employees currently relying on the existing FBT concessions and exemptions will suffer detriment (as will their employers and the local communities in which they reside) through **losing access** to their benefits, should the recommendations as outlined in the Draft Report be implemented.

A. Initial Comments

9. We are pleased that the Draft Report has addressed some of our concerns regarding the FBT remote area concessions. However, our overall assessment of the Productivity Commission's consideration of the FBT remote area benefits is that its approach indicates a pre-determined potential bias towards policy objectives, and that its draft recommendations **do not reflect Treasury's Terms of Reference.**
10. The Terms of Reference requested the Productivity Commission to consider whether the FBT remote area concessions are delivering on their policy objectives and whether those objectives remain appropriate in a contemporary Australia, as well as considering whether there are alternative mechanisms to better provide this support to Australians residing in specified geographic areas.

We believe that these requests have **not been adequately addressed** due to a problematic focus on achieving 'tax neutrality' and ensuring no 'excessive forgone tax revenue' or 'overly generous' outcomes are achieved, rather than a focus on those living and working in remote areas in contemporary Australia and whether they are being best served by the current FBT arrangements. In addition, the Commission has raised some sound tax policy reasons for updating the remote area boundaries, but has subsequently discarded them due to this misplaced focus.

11. In addressing whether the FBT remote area concessions are delivering on their objectives, the following statement is made by the Productivity Commission:

"Any design 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."

12. We consider this approach **erroneous**. Achieving a tax neutral outcome was never intended (or indeed possible) when the needs for the FBT remote area concessions were identified. The concessions are deliberately non-tax neutral and for a good reason – to alleviate the burden for employees and employers who work and operate in remote areas.

This does not align with the Terms of Reference – which in our view is to consider whether the FBT remote area concessions are delivering on their policy objectives. This approach by the Productivity Commission necessarily dictates that the concessions be watered-down or removed. Hence, the pre-determined bias in the Draft Report's analysis. We question whether this 'tax neutrality' focus compromises the Terms of Reference?

13. In any event, the Productivity Commission has, despite acknowledging that its recommendations “may” have compliance consequences and increased administration costs, concluded these outcomes are outweighed by the “improvements” to tax neutrality. We consider this judgment to also be flawed.
14. In justifying that the remote area housing exemption be reduced to a 50% concession, the Productivity Commission has stated the following:

*“As an overly generous concession with loose eligibility rules, the [housing] exemption results in excessive forgone tax revenue for the Australian Government and places a disproportionate burden on other taxpayers.
This change would bring the concession closer to tax neutrality, while generally not penalising employers providing housing.”*

15. The term “overly generous” appears multiple times in the Draft Report, as a fact. Rather, **it is, with respect, an emotive term** that blurs rational policy and legislative decision-making. In the context of the Draft Report, with respect it is based on the simplistic characterisation of a taxpayer being provided with housing by an employer as compared to other taxpayers who have to pay for housing out of after-tax income.

There is no discussion by the Productivity Commission of the metrics of being “overly” generous. Nor does the Productivity Commission consider the extent to which employees provided with such an exempt benefit nevertheless make contributions to its cost. Moreover, if employers are providing housing they are usually doing so because otherwise **they will not be able to attract such employees** – a reality that receives minimal weight in the Productivity Commission’s analysis.

It is misleading in our view to equate the tax treatment as being overly generous simply by comparison with the after-tax costs of housing for other employees. We raise concerns on stating FBT concessions and exemptions are “overly generous” without examining the true economic and employment impacts of removing such benefits, and just as importantly if not more so, the original socio-economic reasons for the introduction of those provisions.

B. Limited consideration of the contribution to regional development

16. The Terms of Reference do not limit the review to just remote area zones. The Treasurer also directed the Productivity Commission to examine the economic and employment impacts of the impact of the FBT remote area concessions and exemptions on remote area zones in regional Australia.

In understanding the policy intent of FBT remote area concessions, the Productivity Commission’s draft report acknowledges that differing views exist on whether the policy intent of such concessions is to provide equitable tax treatment where employers have operational requirements to provide particular goods and services to employees, or to promote regional development by giving employers greater financial capacity to attract and retain employees, or **both**.

17. In light of the above analysis of policy intent and purpose of the review, we observe that the Draft Report did not make any recommendations to help foster regional development.
18. The Productivity Commission partially addresses the objective of regional development:
 - *The concessions are poorly targeted to regional development goals. – too difficult to access, particularly for small business and fail to encourage people to live and invest in the area.*

- *There is no basis for governments to subsidise [the process of business's investment decisions] by offering FBT concessions for remote areas.*
 - *A broadly-applied federal tax concession is unlikely to be a cost-effective approach given State/Territories carry primary responsibility for regional development, and may actually counteract regional development objectives.*
19. We would argue that the concessions were *never* meant to have a small business focus. If large businesses are able to (more easily) access the concessions and do make the requisite investments, then that alone is achieving the objective. Local small businesses would benefit from that investment, whilst being able to access such concessions.
20. The comment that “there is no basis for governments to subsidise” portrays a potential bias on the part of the Productivity Commission as it overrides the ‘poorly targeted’ claim. It also overplays the role of the FBT remote area concessions in dictating business investment decisions.
21. In other words, the aim of promoting regional development has to be measured in terms of downstream economic impacts, not in terms of specific targets hitting regional development. It is too easy for the Productivity Commission to dismiss the concessions by adopting the latter approach.
22. Stating that State/Territories are primarily responsible for regional development is short-sighted. The Australian Government’s assistance in this area **through FBT concessions and exemptions can be valuable to support further development within regional Australia**, something which all levels of government should be working towards given the congestion and strain currently being experienced within metro areas of the country.

We suggest that the Productivity Commission utilises its unique power to **positively influence and shape society** and address problems that exist today, rather than making statements seemingly intent to shape its findings.

23. As an adjunct point, the Productivity Commission states in the Draft Report:

“This broader regional development objective appears to have been a central consideration in the development of the concessions, particularly the expansion from partial concessions to full exemptions for housing in 1997 and 2000.”

24. Given the admission that a partial objective of the remote area housing exemption was to foster regional development, we recommend that the Productivity Commission revisits regional development in its Final Report. This support, as expressed in our initial submission, would best be provided through the introduction of regional employer concessions, as we agree that the mere application of the current FBT concessions by themselves will not create the necessary improvement being sought by the Government to foster regional development.

C. Tax Treatment of employer-provided housing

We note the following draft recommendations of the Commission:

- 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)); and

- revert the exemption for employer-provided housing (section 58ZC) to a 50 per cent concession (as it was prior to 2000).

25. We address each of those proposed changes in turn below.

Removal of customary requirement

26. Upon consideration of the proposed amendments, we support the Productivity Commission's draft recommendation to remove the customary requirement limiting the broad application of the current employer-provided housing exemption under section 58ZC. As outlined in our initial submission, we consider that this should not be limited in its application simply to employers who operate within industries who have customarily provided such housing benefits, as such an eligibility requirement promotes the inequity of the FBT regime amongst employers operating in remote areas of Australia.

27. However, the removal of the 'customary' requirement is contradictory to a statement made earlier in the report:

"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."

28. In light of this terminology, the expectation of this proposed **amendment creates uncertainty as to whether an additional requirement could be introduced in order for employers to qualify for the relevant exemption**. We seek clarification on whether any other eligibility rules or requirements will be introduced to meet the definition of employer-provided housing, in order for the concession to only apply to cases where there is an operational requirement.

29. In anticipation of this potential hurdle, we highlight our view that such a term should not be implemented by the Productivity Commission as a potential eligibility requirement, as this would work against achieving the equitable tax treatment and reducing compliance costs.

Certain Regional Employers

30. For the same reasons the Productivity Commission is proposing to remove the 'customary' clause from the exemption eligibility criteria, it is proposing that the extended areas of remoteness afforded 'certain regional employers' be repealed.

31. The impact of removing the access of this concession for 'certain regional employers' needs to also be fully understood to appreciate the potential ramifications of such a legislative change. The Draft Report partially addresses this issue:

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

32. We question whether enough consideration has been made to the economic and employment effects of removing the ability for 'certain regional employers' to access the remote area housing concessions.

33. We recommend that the Productivity Commission applies more resources to this area before making a final recommendation.
34. Finally, the employer-provided housing FBT exemption could be a key factor that has contributed to regional area's growth, or at least supported it, meaning that its removal would likely have a **detrimental localised impact**.

Reverting to a 50% concession

35. As discussed earlier, we consider that the principle behind converting the remote area housing exemption to a 50% concession places too much emphasis on achieving 'tax neutrality' and ensuring no 'excessive forgone tax revenue' or 'overly generous' outcomes are achieved, rather than actually helping those in remote areas. As such, we respectfully disagree with the Productivity Commission's recommendation to revert the employer-providing housing exemption back to 50%.
36. We do not consider that an equitable result will be achieved by simply halving the concession available to remote area employers providing housing.
37. As outlined in submissions already published by individuals in response to the Draft Report, halving the remote area housing concession **will have adverse effects on small communities, particular those who utilise the concessions to entice essential workers such as teachers, doctors and farmers**. The Productivity Commission has received clear insights into how valuable the concessions are to employers and employees, and yet appear to have ignored these due to the pre-determined bias towards achieving a 'tax neutrality' outcome.
38. The Draft Report outlines the benefits of reverting to a 50% concession include an increase in tax revenue:

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

The reliability of this estimate is poor in our view. We consider this statement to grossly undervalue the behavioural shift from both employees and employers that will occur once the concession is limited. Employers – particularly those with limited budgets – will be unable to provide housing, which as a result, will likely sharply lower the FBT revenue raised and impact employment. This narrow focus on "excessive forgone tax revenue" has caused the Productivity Commission to apparently **give little consideration** to the economic effect of reducing benefits to employers.

39. Furthermore, the Draft Report maintains that the additional compliance costs associated with reducing the concession will be offset by the equitable tax treatments:

"On balance, the Commission considers that the additional compliance costs are more than offset by the benefits of more equitable tax treatment and a broader improvement in the integrity of the income tax system."

40. We **strongly disagree with the proposition that the disadvantage of increased compliance costs will be offset by the (questionably) 'more equitable tax treatment'**. In particular, the impact of the increased compliance costs will be suffered by the regional employers and employees. Whereas, the same employees will not receive any benefited from any purported "more equitable tax treatment", as there is no proposal made to otherwise replace the current benefits with an alternative benefit scheme.

41. On this basis, we respectfully question the rationale around reducing the employer-provided housing exemption to a 50% concession, as it is unclear at the outset what it will ultimately achieve. The Draft Report places undue focus on the inequitable outcome of larger tax savings of a high-income earner compared to an average income earner.

Such a targeted approach is **not justified** considering that the majority of employees accessing the concession receive an average income, and are very much reliant on the assistance provided for through the FBT regime. This proposed change, on face value, cannot be seen in any capacity to align with equitable FBT treatment, thereby falling short of the policy intent discussed throughout the Draft Report.

D. Concession for employee-sourced housing

42. Similarly, we respectively disagree with the Productivity Commission's draft recommendation to remove the 50 per cent concession on employee-sourced housing. While employers may not be in a position to provide sourced housing for employees, this does not mean that employees who commit to life in remote areas of Australia should be disadvantaged as to the assistance they could receive from their employer.
43. Indeed, in the experience of NALSPA members, a large component of the employers who facilitate this concession for employees are employers in the charitable or PBI sector, who provide vital community services and who do not otherwise have the budget or financial means to offer employer provided housing and thereby access the 50% employer provided housing exemption. Whilst the Productivity Commission have justified the proposed changes as employers can simply increase wages, charitable or PBI employers do not have the budget to increase wages to above award payments to cover the loss of the exemption.
44. Ultimately, the justification of retaining such a concession within the FBT regime is based on the growth and prosperity of the communities themselves. Where an employer does not provide housing, nor is willing (or able) to assist an employee in covering the costs of their own sourced housing, it derails the employee's financial ability and desire to relocate to such areas.
45. While we understand that the Productivity Commission is very much of the view that the FBT regime does not have an underlying flavour or capacity of promoting development within regional and remote regions, it must be recognised that the removal of such a concession makes it less attractive for an individual to relocate for employment opportunities, particularly where the costs of renting or purchasing a property are such that a limit applies as to what the employee is now able to source considering their financial situation.
46. In our view, this is likely to lead to an **increased use of fly-in fly-out workers has a detrimental impact** on remote areas and communities, both socially and economically, as individuals are coming and going, thereby limiting the community feel and the flow of money that can be generated by local businesses who operate within such towns.

E. Tax Treatment of other goods and services concessions

47. In addition to the above submissions, we respectively disagree with the Productivity Commission's draft recommendation to change the FBT settings for residential fuel and holiday transport provided by employers in remote areas.

48. In respect to the changes proposed around residual fuel, it is clear that the Productivity Commission seeks to impose an 'operational requirement' for the employer providing such fuel and meals. As highlighted above, it is currently unclear what that requirement will entail.
49. **Disappointingly**, the Productivity Commission has discounted testimonials made in prior submissions that evidence that all utilities – and not just fuel - are more expensive in remote areas. Further testimonials have been included within this submission to illustrate the fact that such differences are a reality of life for individuals residing in remote locations. We hope that these testimonials, in conjunction with those already received by the Commission, are reconsidered when formulating the Final Report.
50. We also disagree with the proposal by the Commission to remove the holiday transport concession. This concession has an **overall positive benefit on employees living remotely**, particularly where they have relocated and have family members in either metro areas of the country or living internationally.
51. The 'fear of missing out' and the seclusion one can feel in a remote country town can be overwhelming, particularly where an individual has evolved and has become accustomed to metro living. Employee's overall mental health can be impacted where they are distanced from family and loved ones for extensive periods of time, and are not in a position to continually fly back and forth for frequent visits. This is exacerbated by the extreme costs of flights and travel from these remote regional centres.
52. In justifying its removal, we consider that the Productivity Commission has not given sufficient consideration to the overall retention rates of employment within such remote areas. There is more to just achieving a tax neutral outcome when reflecting on legislative and policy intent. The greater economic and employment impacts should also be considered, in line with the Terms of Reference.

F. Information requests expressed in the draft report

53. In light of our feedback on the draft recommendations above, we have also provided responses to each of the Productivity Commission's information requests below.

Information request 1 – cost of living

54. While we understand that the Productivity Commission has sought data capable of supporting a comparison of the cost of living in different parts of Australia, particularly in relation to housing costs, it must be accepted by the Commission that such data may not be so freely available to be collated, especially within a short time frame, in order to provide the sufficient 'cost of living' comparison being sought.
55. The Productivity Commission, in its capacity to investigate this area and adopt the relevant resources required to do so, would be expected to have access to such data, particularly given the operation of the Australian Bureau of Statistics (ABS) and its ability to recommend further studies and inquiries into matters of relevance. This information request though reflects **how deficient the existing data is** to provide a complete view on the cost of living and how it interacts with the concept of remoteness.
56. NALSPA, as a body focused on the effective application of salary packaging between employers and employees through salary-packaging providers, is also limited in its accessibility to data reflecting the relevant costs of living per individuals in different Australian locations, particularly given the private

nature of such information. Our position gives us the ability to highlight clear examples where the cost of living differs for individuals depending on where they choose, or ultimately are required to reside. We have covered examples from the media and other commissions below, as well as testimonials from our own members.

57. Our first example centres on the accessibility of healthcare professionals under the National Disability Insurance Scheme (**NDIS**). The *Northern Territory News* published an article on 30 September 2019, titled “*NDIS ‘too complicated’*”, detailing the insufficient number of health professionals available in Darwin and remote communities, something which the National Disability Insurance Agency has sought to assist by providing price increases to NDIS payments which individuals received.¹
58. Secondly, the *Broome Advertiser* published an article titled “Calls from Broome to boost, not scrap ZTO” on 24 September 2019, which focused explicitly on the changes proposed to the zone tax offset, but specifically quoted the Broome Chamber of Commerce and Industry president, Peter Taylor, considering his view of how unfortunate it was that the Productivity Commission’s report did not recognise the much higher cost of living experienced within regional Australia.²
59. Thirdly, the Australian Competition and Consumer Commission (**ACCC**) first interim report on the Northern Australia Insurance Inquiry in November 2018 found that “... *average premiums in northern Australia for combined home and contents products were around \$2,000 per annum, which was double the average for the rest of Australia*” which is not reflective in an increased number of claims being made nor the expense that the insurance companies will need to incur in order to cover any insurance claims made.³

Not only does this demonstrate that insurance costs remote individuals incur in Northern Australia is **excessively high**, but that such an imbalance is questionable, leading the ACCC to make a number of comments and recommendations in this sector to assist with achieving equality around the insurance premiums that are charged.

60. Examples such as this are indicative of the fact that **restricted access to goods and services go hand in hand with increased cost of living in regional and remote areas of Australia**. This was reported to again be the case in *The Age* on 22 September 2019, for rural women who seek access to medical abortion, believed to be the case due to a wider issue of GP shortages in rural areas, thereby requiring such individuals to drive extreme distances in order to attend to a medical clinic capable of performing such procedures.⁴
61. More specifically, we provide the Commission with detailed testimonials from one of our employer clients, who have interviewed employees residing in the remote town of Karratha in Western Australia.

¹ Roberts, L. (2019), ‘NDIS ‘too complicated’, *The Darwin News*, 30 September.

² Waddell, J. (2019), ‘Calls from Broome to boost, not scrap ZTO’, *Broome Advertiser*, 24 September.

³ Australian Competition and Consumer Commission 2018, Northern Australia Insurance Inquiry first interim report.

⁴ Cunningham, M. (2019) ‘Talking to a brick wall’: Rural women struggle for medical abortion access’, *The Age*, 22 September.

62. **Employee 1** provides the following insights as to the cost of living associated with residing in Karratha:

“Petrol is never under \$1.85/litre, accommodation is uninhabitable in summer without air-conditioning which means that the average bill over a summer period is usually well in excess of \$900. My sister, who resides in Perth, is generally paying \$450 for the same period.

There is no Uber or public transport here in Karratha, you need a car if you want to work with most employers being located some way out of the central area of the town.

...

Health issues can be scary. There is no plastic surgeon here in Karratha meaning that when my daughter fell face first onto a star picket here at Point Sampson, there was no one qualified to fix her face and we needed to fly to Perth. However, no assistance was available for any travel or accommodation as it was considered plastic surgery!!

There is no doctor who can put grommets in children’s ears ... and no orthodontist for braces. If your child needs braces, you have to fly to Perth to have them fitted and for approximately 70% of all adjustments as well which means not only added costs (It’s a \$790 return MIMIMUM flight from Karratha to Perth) it also means time off work to accompany my son which I really cannot afford.

There is no undertaker here in Karratha – when my friend’s husband passed away from cancer (there’s also no chemo available here), an undertaker had to drive up from Carnarvon, pick up her husband’s body and then drive it to Geraldton for cremation, a whopping 18-hour drive and yet still cheaper than to fly the body to Perth via the commercial flights. It cost approximately \$15,000 more to die in Karratha than Perth as well.

[In terms of benefits received from the employer] we live in GROH housing (employer provided) and are able to salary package our out of pocket rent amount.

[Without these benefits] we would not be able to afford to rent here in Karratha if we didn’t have GROH housing, as the cost of living is too high and it would not be worth residing here if we didn’t receive such assistance.”

63. Similarly, a number of other employees share similar concerns around the costs associated with living in remote regions:

Employee 2

“The Regional Price Index, as collated by the Dept of Primary Affairs & Regional Development clearly shows that the cost of living in the Pilbara compared to other regional and urban areas is much higher almost across the board. ... for example in 2017 a standard basket of food was 10-17% MORE expensive than Perth in the Pilbara.”

Employee 3

“A box of tablets I take cost \$22 here, \$5-6 anywhere else. Full gym membership comes to \$130p/m here if paid annually to receive a small discount. Freight, especially for bulky items, cost a fortune. Costs are excessive to go see a specialist in Perth because none service the Pilbara. PATS do cover some costs (after making you jump through hoops!) but not full costs of accommodation, travel

while there or eating away from home costs. McDonald's, Subway, Dominoes, Bakers Delight etc. all have marked up prices. Dining out in general is expensive. Trades and home maintenance are included, as they have to pass on their higher costs in order to run a business. Doctor visits are more expensive. Supermarket groceries have mark ups. Kmart puts \$5 average on each item they sell compared to the online prices. Insurances are so much more expensive. Fuel. Rates are \$2500 here, comparable to a house in VIC \$1300. Tax accountants. Flights to anywhere. Electricity is hugely expensive and there is absolutely no competition. There needs to be incentive to get people to move here and stay."

Employee 4

"In general you can say that everything (goods) is 30% more expensive due to freight costs at a minimum. Services are a different story due to people having to pay good wages to attract good people."

Employee 5

"A big part of the reason why we moved up was because of these [FBT] concessions. Without them our salary will be comparable to Perth so I don't see why people will continue to move to Karratha."

As for increased living costs these are mainly travel costs which we are lucky to get a subsidy for due to the FBT concessions adding \$700 per person at least to the flight costs of a trip. This adds up if there are a lot of kids."

Grocery costs and transport costs are also higher with more expensive petrol prices and a lack of public transport or services such as Uber which is available in cities."

Employee 6

"Cost of fuel, alcohol, foods are excessive. Compared to Perth and other regions. I can drive to Broome and buy a block of beer for \$44. The same block here is \$61 and in Perth around the \$40 mark."

Employee 7

"Compared to Perth, just about EVERYTHING is more expensive in Karratha, fuel, insurance, eating out, servicing your car, having a beer at the pub, buying furniture, the list goes on and on."

Example: Dominos Pizza (value range, pick-up) in Perth they are \$5.00ea, in Karratha \$16.95ea."

64. Based on these testimonials, the Productivity Commission **cannot reasonably conclude** that there is only 'some' evidence that the cost of living 'may' increase with remoteness. The extent of the increased living costs and limited availability of essential services must be recognised, as well as the heavy reliance on the FBT remote area concessions to move and continue to live and work in these areas.
65. A summarised comparison of average costs (and applicable circumstances) for an employee living within remote Western Australia and that of Metro Victoria has also been collated and set out below for the Productivity Commission's consideration to ensure the variances which currently exists between metro and regional areas are appropriately recognised. This data was sourced from our

enquiries of individuals living in the two locations as at October 2019. While we acknowledge the fact that the following locations are within two different states, this should not ultimately restrict the

Productivity Commission’s interpretation of these figures as a justifiable basis to conclude that a disparity around living costs very much exists.

	Remote employee	Metro employee
Petrol	\$ 1.85 / litre	Average \$1.45 / litre
Groceries	\$ 1,100 per month for a family of 4	\$1,000 per month for a family of four
Accessibility to / cost of healthcare	Extensive waitlist to see a doctor, limited access to specialists and hospitals	Able to easily access bulk billed doctors, specialists and local hospitals
Entertainment costs	Average meal is \$35 per head for a main meal & no cinema available	Number of various entertainment activities available to engage in; Cost of average meal is \$20 per head
Transport costs	No public transport or Uber – therefore owning a vehicle is required	Public transport and Uber available
Recreational services (i.e. gym access)	\$30 per week	\$18 per week
Rates (where a house is owned)	\$ 2,500 p.a.	\$ 1,300 p.a.
Utilities	Greater than \$10,000 p.a.	\$3,000 p.a.

66. **Unfortunately**, the reality demonstrated in the above examples and testimonials only touches on a handful of circumstances where individuals living within remote or regional areas of Australia are limited in their access to basic goods and services, thereby giving rise to much concern in such communities in relation to the reforms proposed by the Productivity Commission. Assistance, in this case in the form of the FBT remote area concessions, are a form of support upon which businesses and individuals rely on to mitigate the impacts of limited accessibility to, and high costs of, goods and services.

67. In light of the above, we invite the **Commission to reconsider their Draft Finding 2.3** that there is only ‘some’ evidence supporting that the cost of living increases with remoteness. We consider that there is significant evidence to support that the cost of living increases with remoteness, and the FBT remote area concessions are an important tool used by employees to alleviate this burden. Consequently, the draft recommendations must be updated to reflect the substantiated importance of the FBT remote area concessions.

Information request 2 – utilisation of remote area FBT concessions

68. As advised in our initial submission, and reiterated above, NALSPA is a body focused on the effective application of salary packaging between employers and employees through salary-packaging providers. In light of this position, we have provided below for your consideration aggregated data regarding the utilisation of remote area FBT concessions through NALSPA.

69. In determining the likely impact of the Productivity Commissioner’s draft recommendations, it is estimated by NALSPA members that the annual value of employee expenses currently salary packaged as remote area benefits would drop from its current level of **\$87.5 million to \$6.88 million per annum, producing a reduction of in excess of \$80 million per annum.** In summary:

	Current Annual Value of remote area expenses salary packaged by employees	Forecast Annual Value of remote area expenses salary packaged by employees (following proposed changes)	Reduction in remote area expenses salary packaged by employees	Number of Employees utilising benefits
NALSPA Members	\$87,548,206	\$6,873,535.70	\$80,674,970.30	7,285

70. It is clear that the majority of employees will **lose access** to their benefits, should the recommendations as outlined in the Draft Report be implemented. We question whether the economic effect of this loss, in terms of job retention, disposable income and small town viability, has fully been explored by the Productivity Commission in handing down its recommendations.

71. As noted in our prior submission, this is solely a representation of the number of employees whose benefits are administered by NALSPA members. Many other employees will currently be claiming remote area benefits where these are administered by other salary packaging providers or by their employers. Accordingly, the real numbers in the table above would be significantly higher than those shown.

72. In light of this information, we invite the Productivity Commission to consider the vast utilisation that is currently witnessed within the market, and to recognise in the fullest capacity the adverse and inequitable economic impacts that the recommendations included in the Draft Report would have on such businesses, employees and their families, and ultimately the prosperity of many regional and remote areas.

Information request 3 – whether remote area concessions should be reportable or excluded

73. Regardless of any other changes, or their absence, we do not agree that remote area concessions should be reportable.

74. Given reportable benefits are reported on employee’s Pay-As-You-Go (**PAYG**) Summary, which is used to apply income-tested government benefits, surcharges and obligations, an employee in a remote area would be worse off. Consider an employee, who for operational reasons, receive remote area housing outside of Katherine. Assuming a market value price of \$500 per week, the employee will receive a reportable fringe benefit amount of \$13,000 on their payment summary under the revised 50% concession.

It seems hardly equitable for this employee to also incur a large reportable fringe benefit amount, simply because they were required to relocate to an area with limited housing for their employment.

75. On that basis, we ask the Productivity Commission **to not recommend** to the Australian Government that remote area concessions should become reportable benefits for the purposes of PAYG payment summaries, on the basis that such a legislative change could financially impact a number of employers and employees residing in areas of Australia which rely significantly on the allowances and concessions available to them in light of their residual status.

Information request 4- Compliance burdens of changes in FBT treatment of employer – provided housing

76. Considering that employers have been entitled to the employer – provided housing exemption since its inception in 2000, the compliance burdens attached to such a benefit have been relatively non-existence as no benefit has been required to be calculated and captured in the FBT return.
77. With the proposed recommendation seeking to reduce the exemption to a 50% concession, available where housing is provided by an employer in a ‘remote area’, to what extent compliance burdens will be incurred by an employer in their effort to remain compliant with their FBT obligation currently remains unclear, as the Productivity Commission has made no recommendations as the methodology for calculating taxable values, and indeed has not mentioned rules which will impose compliance costs.
78. The level of such compliance burdens will be dependent on a number of factors, including but not limited to, the total number of employees that are provided such benefits, the employer’s ability to determine the benefit actually being attributed to an individual (i.e. on the basis that taxable value is calculated on the market value of the housing benefit provided), and whether the employer had previously registered for FBT.
79. **The Productivity Commission has not acknowledged** that such a market value may be difficult to determine, particularly where employer-provided housing is granted in light of limited housing availability within the specific community the employer requires the employee to operate in. A restricted market staggers the employer’s ability to comply with their FBT obligations (particularly where the exemption will be reformed to a 50 per cent concession), potentially requiring the employer to seek assistance through the application of an independent valuer, but ultimately at the expense of the employer.

Information request 5- eligibility rules for FBT remote area concessions

80. The Draft Report did not make any suggestions on re-setting the remote area boundaries. Instead, it was concluded that the proposed dilution of concessions would likely remove the need for an update:

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

81. **We argue the opposite.** Should the eligibility rules be updated to accurately reflect modern remoteness, we believe there is less of a need, if any, for watering down the concessions. We consider that fixing the eligibility rules which are demonstrably no longer fit for purpose is a simpler (and more equitable) method, than limiting the concessions.

This will restore the integrity of the FBT remote area concessions, given the potential tax advantage for employees who reside in locations that have morphed from remote to urban (such as Byron Bay). The Productivity Commission references this integrity issue in the Draft Report:

“Additionally, current eligibility rules mean that the exemption is available in areas where there are other housing options available and, because it is not tax-neutral, it can create a significant incentive for employers to provide goods and services in lieu of wage remuneration.”

82. We have previously made reference to possible avenues of updating the rules in our initial submission to the Productivity Commission, including reference to various factors that need to be considered before making a determination. We have provided an extract of these factors below:

“Population data does, in some instances, lead to an answer unintended by the original principles of the law design. The definition of urban centre does not take into account the varying levels of advantages amongst cities. For instance, both greater Sydney and greater Darwin are considered non-remote areas by the ATO, however as evidenced by the census data, individuals located in Darwin face far greater hardships than those in Sydney. An employee who works 40km from Sydney and 40km from Geraldton are both considered ineligible for the FBT remote area concessions, and yet face far different measures of geographical isolation and economic infrastructure. We consider it imperative to draw conclusions on what is considered a remote area beyond just population data.

If not relying solely on Census data, we are faced with a further challenge of how to set the remote area parameters. Applying subjective criteria, such as an ATO approved list of remote areas, would further complicate the eligibility criteria and lead to confusion if these areas observed an acute population growth, or if other ineligible areas faced population decline. Accordingly, we consider it imperative to rely on statutory rules rather than distances. An equitable and easy way to set remote area parameters would be to set a boundary of all postcodes that are considered urban, and allow all towns that are excluded to meet the remote area definition. This would allow areas on the border of urban and remote areas, such as Howard Springs and Palmerston in the NT, to qualify for the concessions. To combat internal migration and the population decline trend for remote areas, we also suggest refreshing the list of urban towns at set intervals of time.”

83. In line with the above, the simplest way of modernising the application and thereby eligibility of the FBT concessions **would include updating the remote area parameters to be reflective of current population figures and thresholds**. In light of this view, it would be expected that the remote area boundaries be updated as regularly as possible, based on the ABS data and other sources of information available to the Government at the time of revision.
84. In summation, if the remote area parameters were updated, there would be no need for any reduction to the FBT remote area concessions.

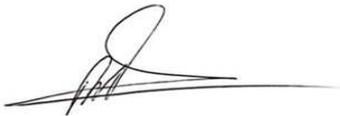
Information request 6- Impacts of proposed changes on key services

85. Following on from the information reflecting the relevant utilisation of FBT remote area concessions under Information Request 2, we respectfully submit to the Productivity Commission that significant impacts will be witnessed within remote and regional areas, should the proposed changes come into fruition, to many industries and, in particular, to key services areas within the health industry.

86. This view is based on the study undertaken and published in the *Rural and Remote Health*, looking to understand the turnover experienced in early-career nursing and allied health professionals working in rural and remote Australia.⁵
87. In light of the study, professors Cosgrave, Maple and Hussain, developed the notion of the 'turnover retention theory', a theory which hypothesises an individual's decision to remain or leave their job within remote Australia was highly based on their aspirations, relative to the gap between the individual's professional and personal expectations and the reality of their current employment and rural-living experience.
88. NALSPA members administer remote area benefits for a large number of health professionals working for various State Government employers and many **Public Benevolent Institutions (PBI) and not for profit organisations**. The impact of the proposed Productivity Commission reforms on the viability of a health professional remaining in a remote or regional area must not be underestimated.
89. We submit that the additional costs that will be imposed on employees as a result of the changes will be instrumental in the decision by many health professionals to leave their employment in remote Australia for a more urban centre, resulting in significant disruption and further loss of key services to those areas.

In light of the information provided, we welcome any further opportunities to discuss these matters addressed above with the Productivity Commission in order to ensure a just outcome for remote Australia.

Yours sincerely



Rohan Martin
Secretary

National Automotive Leasing and Salary Packaging Association
Locked Bag 32004 Collins Street East,
Melbourne, Vic, 8003

⁵ Cosgrave C, Maple M, Hussain R. An explanation of turnover intention among early-career nursing and allied health professionals working in rural and remote Australia – findings from a grounded theory study. *Rural and Remote Health* 2018; 18: 4511.