Tax Zone Rebate

EXPLANATORY MEMORANDUM

INTRODUCTION

The Taxation Zone Rebate (TZR) introduced in 1945 is an income tax concession which recognises the disadvantages to residents in 'specific areas' of Australia. These disadvantages according to the Australian Income Tax Assessment Act include uncongenial climatic conditions, isolation and the high cost of living compared to those of other parts of Australia.

These 'specific areas' consist of two zones. Zone A includes nearly the entire continent above the 26th parallel and some offshore islands with the exception of approximately 50% of eastern Queensland. Zone B which is deemed to be less remote includes the remainder of the continent except for highly populated areas. There are also Special areas in both zones that are deemed to be 'most remote', which are more than 250 kilometres from the nearest urban centre with a population 2 500 or more, as at the 1981 census.

The Zone rebate currently consists of two parts, a fixed amount of $57 for Zone B, $338 for Zone A, and $1 173 for Special Areas in both Zones; and an additional amount based on a percentage of certain rebates for dependents, 20% for Zone B and 50% for Zone A and the Special Areas.

RESIDENCY

A resident is defined as a taxpayer who spends time in the Tax Zone Rebate zones, not necessarily continuous time. Entitlement to the rebate requires a combined residency period of 182 days minimum over 2 years.

The research, involved in developing this paper, has revealed that the current zone rebate system is in desperate need of review. It presently allows large benefits to the undeserving fly-in fly-out and mediocre benefits to the deserving remote bona fide residents.

Fly-in fly-out encouraged by the imposition of Fringe Benefits Tax on company provided housing has been the principal reason for the depopulation of mining and mineral processing regions. This proposal recommends that for the purpose of Tax Zone Rebates the definition of resident be restricted to permanent residents residing continuously in an area and those eligible to be enrolled are enrolled at that address. Current provisions allowing a resident who moves from one remote area to another, or who spreads the period of residence over two tax years, to claim a rebate, should continue to apply.

An example of disparity under existing provision is that a fly-in-fly-out mining engineer resident in the leafy suburb of South Perth, engaged at Leinster Western Australia, could receive a tax rebate as high as $ 2 975 pa or $ 57 per week (assuming a dependant spouse and four school-age children). On the other hand, a truck driver resident at the

Gascoyne Junction, is entitled to $338 pa or $6.50 per week yet he/she lives over 160 kms from an urban centre of less than 7 000 persons, in a community of less than 100 persons, without hospital, medical or police services, there is no general store and the community is often isolated by seasonal cyclones. Already this is inequitable without consideration of the extreme climatic differences between Perth and Gascoyne Junction.

The proposal to exempt fly-in fly-out workers from the Tax Zone Rebate is based on consideration of the extremely different circumstances workers are subject to. Typically the fly-in fly-out worker is transported to the area by air at no cost to the worker, is picked up by company air-conditioned vehicle, is housed in air-condition serviced accommodation, eats in an air-conditioned dining room, enjoys three meals a day with menu choices and is then returned to his permanent home environment. The remainder of the family have continued to enjoy a well serviced environment, enjoying all manner of choices. Contrast this with the *bona fide* tax zone rebate area resident paying local uncompetitive prices for fuel and groceries and a meagre range of locally provided services. High fuel prices cut deep due to the great distances travelled to access medical services.

Removing the benefits now enjoyed by fly-in fly-out workers residing in populous cities and increasing benefits to residents in remote communities is an attempt to properly compensate for the disadvantages of remote location, and also to encourage more permanent residents to settle in remote Australia. This paper has indicated that these minimum proposals require little or no additional cost to revenue.

DEMOGRAPHIC FACTORS

The Australian Bureau of Statistics determines that 1% of Australia's land mass contains 84% of our population and that approximately half of our continent contains only 0.3% of the population. This gross imbalance in the distribution of Australian population is a source of ongoing concern due to problems of security when large sections of Australia remain uninhabited.

There has in recent years, been a continuing population decline in rural areas due to internal migration, and population increases in fast growing areas such as the coast of northern Queensland and Darwin. Remote inland pastoral and agricultural communities are disappearing making others even more isolated, while previously small coastal towns have become thriving cities.

The City of Darwin, for example, has a population of 117,400, which includes approximately 42,000 taxpayers. Darwin is included in the T.Z.R under Zone A, allowing taxpayers to claim $338 rebate. This is 55% of the entire Northern Territory population. Darwin has an international airport, a thriving seaport, international hotels, and a cost of living not far removed from the southern capitals. With the completion of the Darwin to Alice Springs railroad and regular flights to Asia, Darwin can no longer be regarded as a remote area.

Three of Queensland's regional northern coastal cities each have a population, exceeding 60,000, Cairns (pop 120,000), Townsville (pop 171,000) and Mackay (pop 91,000). They are all situated in the present Zone B, have high growth rates, and a combined population of 291,800. This represents about 165,000 taxpayers, more than half the estimated taxpayers entitled to a Zone B rebate.

Zone B provides an average individual taxpayer with a rebate of $57 per year, and an average family taxpayer, with an employed spouse and two dependent children, with a rebate of about $208 per year. These individual payments are insignificant to individual taxpayers. However the total payment to 165,000 Zone B taxpayers who reside in the above large cities represents an annual cost to Commonwealth revenue of about $24 million.

There are certainly remote communities in Zone B, the most deserving being those in the Special Areas in that Zone, which should retain a Zone rebate concession. There remains a question as to how many other areas in Zone B should be considered to be remote, after taking into consideration improvements in transport and communications over the past two decades. Those that are genuinely remote should certainly receive a rebate which is more generous than that outlined above.

There appears to be little justification for the three degrees of ‘remoteness’, which is the basis of the present system. While the definition of ‘Special Areas’ implies that these are very remote and requiring special treatment.

This proposal recommends retaining the present Zones and Special Areas but remove from the Zone system all cities in Zone A and Zone B with a population exceeding 60,000 (such as Darwin and the three above Queensland cities). This would decrease the number qualifying for Zone A and Zone B entitlements. There would continue to be approx 25,000 taxpayers in the Special Areas.

VALUE OF REBATE

The effects of inflation and changed family structures have rendered the dollar amounts of rebates in the current system ineffectual in meeting the disadvantages accruing to permanent residents of the Remote Zone and Special Areas.

The fixed amounts are inappropriately low when average annual taxable incomes are around the $35,000 level, and the cost of living in remote areas is considerably in excess of that in southern cities. To provide one example, fuel costs in remote areas range from 20% to 50% above southern city prices.

In the average Australian family there are now slightly less than two dependent children and a partly or fully employed spouse earning a ‘separate net income’, which eliminates or reduces the dependent spouse rebate. Consequently few family taxpayers in remote areas can claim a significant rebate for dependents, and this reduces the value of the ‘base’ part of the zone rebate.

In this proposal, the dollar amount of rebate for residents of Zones A and B, of the Remote Zone, and the Special Areas, are raised to a level closer to meeting their disadvantages of location. However, because the number of potential claimants has been reduced, there will not be an increase in the total cost of providing these benefits. In fact, the demographic and calculation changes result in a total cost reduction.

REVIEW OF ZONES

It is proposed -

- Zone B is abolished by deleting any reference to Zone B in Section 79A and that the definition of Zone A is applied to a new zone 'Ordinary remote' and the term zone A be also abolished; which will modernise the terminology and bring it in line with the payment made under the Federal Social Security Legislation.

- The area described as Zone B in Part II of Schedule 2 be encompassed in the area described as Zone A in Part I of Schedule 2. There will then be only one Ordinary Remote Area which will extend over areas of both Zone A and B as existing.

- That sub-Section 79A(3) be deleted accordingly.

REVIEW OF REBATES

- To amend Section 79A(2)(a) by deleting the figures '$1,173' and substituting the figures '$2,000', to increase the Tax Zone Rebate for the "Special Remote" to reflect not only the ravages of inflation in the intervening period since the 1991 review, but also to provide incentive for remote residency rather than temporary period of visiting the areas.

- To amend Section 79(A)(d) by deleting the figures '$338' and substituting the figures '$500', the increase may not appear commensurate with the increase proposed for the existing Zone A however consideration has been given to the residents of Zone B who will now benefit from the extension of Zone A.

HECS-HELP Rebate

It is also proposed through the tax system that a graduate who has an accumulated Higher Education Contribution Scheme (HECS-HELP) debt receive a rebate. This is calculated at 25% of the year's repayment contribution for permanent residents of Zones A and B for the Remote Zone, and 100% of the year's repayment contribution for permanent residents of the Special Areas.

This provides an incentive for young professionals to locate in remote areas and reduces the need for government to offer further expensive cash incentives.

If imposed now the cost of this change would be negligible because only about two percent of remote area taxpayers have currently incurred a HECS-HELP debt.

The above produces costs using an 'average taxpayer' model close to the level of total cost of the existing tax system. The tighter residential requirement recommended would reduce the calculated costs of the proposed rebates by several millions of dollars.

It has been reported graduates are leaving Australia in order to avoid HECS-HELP repayments. The changes proposed in this paper will offer graduates an opportunity to continue to reside in this country and have the Australian tax system contribute to their repayments, without the need to live overseas. It will provide an incentive for graduates to reside in rural and remote Australia with an incalculable benefit to regional communities and the Nation generally.

Many thousands of dollars are spent annually on medical practitioners' rural retention funds. The introduction of this scheme would not only extend rural retention incentives to all graduates, but provide a method of reducing reliability on that direct cost.

SUMMARY OF RECOMMENDATIONS

1. To tighten the definition of 'residency' in the tax legislation, so that the zone rebate is available only to permanent residents of designated remote areas of Australia. 'Permanent' is defined as being resident in designated remote area or combination thereof, for at least 182 consecutive days in the year and enrolled in those areas if entitled.

   Residents continue to be eligible to claim the rebate when they reside in a zone for more than 182 days in any two years such that the rebate is only applicable in the second or subsequent year. This is necessary to accommodate teachers, police and other employees that start work in February and finish in November, with their employment split over two financial years.

2. Population movements have changed in Australia since 1945; some areas are now less remote, and more amenable and competitive. All centres with populations of more than 60 000 persons, as at the Australian Bureau of Statistics census of 2006 are deleted.

3. To combine the four zones namely Zone A, Zone B and Special Zone A and Special Zone B into two zones namely Ordinary Remote (Zones A & B) and Special Remote (Special Zone A and Special Zone B).

4. To substantially increase the rebate available to permanent residents of the Ordinary Remote Zone and the Special Remote Zone, from their current inadequate level to $500 and $2 000 respectively. These rebates to be reviewed every five years guaranteeing that the result of review does not reduce the rebate.

5. To provide an incentive for tertiary qualified taxpayers to become residents of rural and remote communities, in the form of a rebate of repayments due under the Higher Education Contribution Scheme/Higher Education Loan Program (HECS-HELP), as well as a higher zone tax rebate. Such that taxpayers with a HECS-HELP debt will have 25% of their liability reduced for that year of residence in an Ordinary Remote Zone and 100% of their liability reduced for a year in a Special Remote Zone.

6. Both Zone tax rebates and HECS-HELP rebate be apportioned by the number of days actually residing in a zone.

7. Non residents now claiming tax zone rebate solely as a result of accumulating 182 days on site will not be entitled.

8. The proposals also apply to members of the defence force who are provided for in legislation (Section 79A of the *Income Tax Assessment Act 1936*).