

Tax Forum, October 2011, Submission

## Regional Development Australia Far West NSW

16 September 2011

This submission directly supports the tax forum sessions which relate to:

- **Personal Tax** (Zone Rebate)
- **Environmental and Social Taxes** (Deductible Gift Recipient (DGR) Status)

### CENTRAL THEME

The central theme behind our submission is balance. We note too that balance is an objective of the tax system. The Tax Forum Discussion Paper highlights some of this.

Some extracts from the introduction comments by the Treasurer (page v):

*... How do we fairly spread opportunity to all corners of our patchwork economy?*

*... The tax system is a major driver of the type of fair and prosperous society that we want. This is why reform of the tax and transfer system is important to achieving our economic goals. Tax reform should aim to make the economy stronger, our society fairer and the tax system simpler.*

*... The mining boom provides us with an opportunity to ensure that the living standards of all Australians continue to rise, that we share the benefits of prosperity and do not leave some Australians behind.*

*.... Climate change poses questions that every nation will have to answer — questions about how we can find ways to promote the sustainability of our ecosystems, our food supply and the places we live and work. We need to make the transition to a low-carbon economy to preserve our long-term competitiveness — by encouraging the development of new clean-energy technologies and environmentally sustainable economic growth.*

When looking to find balance in the tax system, the valuable experience from Broken Hill and district gained from 120+ years of mining cannot be overlooked. During this time the region contributed much to the national purse and the industrial laws of Australia, among other things. This region has survived harsh economic cycles, industrialisation, automation, and now it faces new challenges, globalisation, climate change, fierce competition for labour and lifestyle options on the coast.

How does a vast open landscape compete with a suburban beachside lifestyle? When Government policies tend to support jobs being centrally located in large coastal cities, how does a small city like Broken Hill attract professionals and skilled trades people?

Assuming that many policies over many years created the rift in the first instance, then Governments must allow policies to make a difference in the favour of the regions that now struggle to attract and

retain workers. In our submission we make two clear recommendations for tax policy initiatives that can be piloted in our region first, and then, when refined and functional, they can be applied to other regional areas.

We also note that these policies we recommend also support other transformational policies like the rollout of the national broadband network (NBN) across Australia.

The tele-working opportunities and potential innovative uses of technology need to be more intently explored beyond diverting the Parramatta Road traffic from the Sydney CBD.

Broken Hill and district is striving to encourage the swift NBN fibre and satellite technology rollout and tax policy change to create a new top quality, sustainable work environment for residents.

We will know we are successful in our endeavours when:

- jobs are located in our region but the workplace may be in Sydney or Melbourne or London
- when mining companies and other industries and services can attract a skilled workforce who are willing to relocate as residents to our region as there are supporting tax concessions to compensate for costs, distance, climate, lifestyle compromises
- when small and medium enterprises sprout in response to funding options that are made possible by the Broken Hill Community Foundation
- when, eventually, the arts and creative industries, mines, agriculture and tourism sectors attract and retain people and the whole region is a vibrant, desirable place to live in, and job vacancies are quickly filled

Our plans and strategies have been specifically developed in response to our local needs. But we have also taken note of Australia's ageing population profile (Intergenerational Report, 2010), and the geographical distribution of Australia's population (Sustainable Australia – Sustainable Communities, 2011) which is unsustainable if the trends continue - there are costly impacts on infrastructure, congestion, pollution, food supply, water supply.

From our region's perspective, we need to stop the policy trends that have forced our population decline, and made some of our enterprises less competitive. These issues are important to us now, not in another 50 years' time!

We don't need any more studies or reports apart from the pilot study in our region for our two key recommendations that will have potential to transform the landscape of regional areas. We feel that it may even contribute to the establishment of new communities in mining regions where policies currently support fly-in-fly-out arrangements rather than investment in regional community development.

Broken Hill and surrounds has lessons learned that can be useful to other parts of the country that are now in high development mode. Importantly, we have the social and economic infrastructure already in place to pilot our recommendations. We urge consideration of our suggestions in order to

make a difference in our region now and over the next 5-10 years, say, and be in a position to apply this knowledge in other regions in the future knowing it has been tested, refined and successful.

## **PERSONAL TAX**

The recommendation we make from our region relates to TR 94/27 which provides a wealth of background and insight into the thinking of the Government as at 1994, insofar as S79A of the Income Tax Assessment Act 1936 and zone rebates are concerned.

Broken Hill is located in Zone B, and the rebate is \$57 per year (single, no dependents). In Zone A, eg Alice Springs, the rebate is \$338 (single, no dependents). Each year, residents in Australia's Zone A and Zone B claim a rebate in their tax return for living in a zone that is deemed by the ATO to be remote, less congenial, less advantageous, more expensive. [The residents already living in our region probably only agree with the last two.] The rebates are slightly more, but not much more flattering, than the single rebates, for families/dependents.

The taxpayer must be a resident for more than half a year of the income year and there are already rules and definitions in place that determine eligibility and calculations (T8 on the tax form).

Our recommendation is blissfully simple, low cost. It is not required that the ATO become steeped in more work. The foundation development work and operational processes are already in place. We are simply suggesting that we make the rebate meaningful and relevant to give our region a fighting chance to attract and retain skills where needed against skills shortages and competitive tactics in place elsewhere.

We suggest that Broken Hill and district (including Central Darling Shire and the Unincorporated Area of NSW – the same geographical area as RDA Far West NSW) become the pilot site for this given our 120+ years of mining experience and ongoing efforts to appropriately diversify the economy and create a sustainable community.

Please refer to Attachment 1 (confidential data) for some further information on this recommendation. This brief was produced initially last year, and provided to the Federal Government Department of Regional Australia, within the context of other submissions during discussions about the future water availability and the drafting of the Murray Darling Basin Plan (2010-11). The recommendation offers a simple but effective solution to the current challenges we face in our region.

In terms of discussion questions, we are addressing dot points generally, but specifically the last one on concessions on p.13.

The key intent is to reduce 'over-crowding' and assist with 'skills relocation'. This tax reform could help target appropriate redistribution of the population and promote technology use eg tele-working.

We believe that if Broken Hill as a pilot site, offered meaningful tax rebates as part of the test site in Zone B, our efforts to attract and retain skills in the region would be magnified exponentially overnight. We would like fair treatment of all people in this tax policy reform, irrespective of skills, trades, professions and workers who may not be overly qualified.

In the future, irrespective of which economic scenarios play out, we face predictable difficulties without intervention.

We know these difficulties will emerge because the same cyclical outcomes have been experienced over Broken Hill's 120+ year mining history.

Below are two scenarios we can expect at any time in the future:

***Scenario 1 (optimistic?)***

The mining boom continues. New mining projects are developed. There is a rush to recruit and wages spiral upwards in response to skills shortages. Local small business loses skilled labour to mining. There is an increase in fly-in-fly-out traffic that congests limited flights into the region. Governments scurry to put in place programs to prepare workers for the boom, bolster immigration programs, create new lists of targeted professions. Workers relocate to the highest paying areas and are happy to pay high city real estate prices in return for high salaries in fly-in-fly-out positions. No communities develop in the new areas. Broken Hill competes with mine locations that offer incredibly high salaries. Companies take no responsibility, gain tax deduction for fly-in-fly-out operations.

***Scenario 2 (mildly pessimistic for the nation, catastrophic for Broken Hill)***

The mining boom falters for selected base metals again due to stockpiling overseas. A patchy economic downturn is likely in these regions. More people leave Far West NSW region to go to the coal and iron ore mines in Qld, coastal NSW and WA. Efforts to diversify the Far West NSW economy are not yet at a sustainable level – the RDA Far West's last year of work is reviewed and people wonder why action was not taken earlier. There will be other areas in the country with similar job losses, yet general unemployment rates nationally won't be significant while certain base metal resource areas (eg Broken Hill) will haemorrhage socially and economically yet again.

Either in good or bad outlooks, this region must do something. The review of the Zone Rebate in a focused pilot in our region is one way that can assist and achieve very quick results.

**ZONE REBATE**

The reason why we recommend a pilot in Broken Hill and district is to be sure that something different is done – doing the same thing will not work. The reason why the pilot study needs to offer a generous rebate is because we want the pilot to work – the same low rates don't work and the rebate needs to compete with the opportunities on offer in other regions.

For example, if in simple language a mine worker can equate the amount of the zone rebate to his or her annual tax bill, say 20% or 50% of the tax is reduced, there will be a great opportunity for success. It is this amount of money per annum that singles and families need to travel out of region on an annual holiday. In Attachment 1, a generous rebate is used in the example to highlight that, within the context of Australia's current imbalanced population distribution, there is significant opportunity to model many locations and many different rates, and still the overall cost to the Federal purse is relatively small compared to the revenue output and solutions to so many other problems.

It is so simple – why has the rebate not be tweaked over the decades, not even to keep up with inflation?

It is so simple – please don't over-complicate our recommendation.

The tweaking of rebate amounts and reviewing of issues like eligibility, geographic areas included in the zones, and other criteria, need to take a back seat up front while the pilot runs. There are potentially significant positive impacts on how the continent's population can be inspired to be voluntarily redistributed, and it should not be put at risk by making this matter too complicated, too hard to understand, or too difficult to determine if a person or a family is eligible.

There are also issues that will require greater understanding – eg time involved before people make decisions to relocate to a region, the number of job vacancies in the region, new projects that may require new skills not currently available in the region, and so on. The pilot in our region can assess these broader issues.

The zone rebate pilot study is one way to facilitate the volunteering of relocation to areas where skills are needed. It is also a way of saying "thank you" to local workers who have for many years endured the "uncongenial climatic conditions, isolation and high cost of living in comparison with other parts of Australia" (TR 94/27).

There is also merit for the zone rebate pilot study in Broken Hill to demonstrate how other emerging Australian resource-rich frontiers can create sustainable, relevant communities rather than just supply an endless source of tax deductions to companies as they find ways to avoid creating communities. The successful pilot of the zone rebate in our region could demonstrate to companies how communities may become established in the future, more so when combined with the power and potential of our second recommendation, seeking support for the Broken Hill Community Foundation.

## **ENVIRONMENTAL AND SOCIAL TAXES**

This part of our submission fits within the context of Session 5, environmental and social taxes. However, we are not recommending a tax but rather, recommending a tax deduction based on social grounds. This recommendation will have triple bottom line benefits for all our region's stakeholders.

The background to our recommendation is in Attachment 2 (confidential data). This brief was provided to the Federal Government, Department of Regional Australia, within the context of discussions about future water availability and the Murray Darling Basin Plan. But the BHCF endeavours are not new. The Foundation has been seeking realisation of this recommendation for more than a decade! Attachment 3 provides some further background and specific responses to past concerns expressed informally by previous government representatives.

This recommendation presents a brilliant opportunity to address the various challenges we face and it will greatly alleviate the torment and pressure involved in the constant struggle to locate funds that can be applied to our local business and community needs. It presents to the Federal and State Governments a sustainable community model. It supports our region's aspirations to achieve economic growth and it will allow our residents to contribute to self-determination in a most proactive way.

Extreme economic cycles have created many of the issues that are specific to our region, and use of the tax system in such a way to find solutions to these issues makes sense. Again, we do not recommend this solution to all communities. There should be some kind of acid test to filter an explosion of similar requests. We have documented some ideas in Attachment 3.

In terms of the discussion questions, we are addressing the third dot point on p.31.

### **DEDUCTIBLE GIFT RECIPIENT (DGR) STATUS FOR THE BROKEN HILL COMMUNITY FOUNDATION (BHCF)**

The whole purpose of having RDAs was to put regions back into control of their destiny and prosperity – using home-grown solutions. Enabling self-determination within communities is a good thing and it needs to be further encouraged. No one cares more about the region in which we live than us – no one will work harder for our region than us. Please carefully consider this recommendation within this context.

Australia's patchwork economy has resulted in many challenges, and we know this all too well in Far West NSW. This region's challenges are many:

- Declining population, for decades, due to extreme climate and economic cycles;
- High unemployment in different demographic groups, especially amongst Indigenous people, and very high in parts of the region – but generally much higher than State and National average rates, and consistently remaining higher;
- Economic dependence on mining, agriculture, both of which are subject to frequent cycles (boom and bust), with few alternative employment areas;

- Shrinking of supply of goods and services in the region, including Government agencies; loss of regional offices from area (public and private) and this has directly affected population trends (downward);
- Only slender, token efforts to diversify economy have been realised in 120 years of mining so the region remains highly vulnerable to globalisation, climate change impacts;
- Ageing demographic;
- Loss of skilled people, young people, due to lack of job opportunities;
- Training and education opportunities are limited – eg, lack of the NBN and uncertainty as to when it could be rolled out in region is creating angst in the community about when improved education opportunities may be possible;
- Investment by small business is tough with limited credit; traditional banks can generally be a difficult source of funds;
- Deterioration of community facilities across the region, and lack of sufficient funds to keep up with repair and replacement programs;
- The high competition amongst public grants and philanthropic funds is made worse by the tiring, ageing, shrinking volunteer base in the region;
- A decade of drought delivered hardships to pastoralists and horticulturalists in our region and the next few years will be important as they consolidate, restock – they continue to face skills shortages, high cost of living, challenging and changing transport routes due to weather, limited local procurement options, and other issues – they are relatively minor issues elsewhere but significant here.

The RDA Far West Regional Plan supports existing mining and agriculture enterprises, and their supporting infrastructure, and welcomes new investment. It also seeks to diversify the local economy, leveraging assets of our economic landscape.

The key economic expansion efforts are dependent upon the Ramsar listing of the Menindee Lakes to support expansion of investment opportunities in ecotourism, and the rollout of the NBN fibre solution into Broken Hill to facilitate expansion in arts, creative industries and the growth of the new film studio and Patton Village tourism precinct.

For the general development of the region, however, we also seek to increase the funds that can be invested locally to support mining, agriculture, ecotourism and creative industries through the delivery of the NBN.

The high competition for relevant grant funds through government and philanthropic avenues is understood. There are many recent examples that can be referenced which demonstrate difficulties in gaining success to grant funds. The quality of the application, and many other factors, do have an impact on success. But these are rarely the cause. The grant-fund needs throughout the country simply cannot be met through the limited funds on offer.

Hence, the RDA Far West fully supports the request by the Broken Hill Community Foundation to attain DGR status to meet the needs for our region to enable us to take control of our destiny and future prosperity.

The DGR status will help the region by granting self-determination. The local Broken Hill Community Foundation board, who are all volunteers, should be rewarded for their past 10 years of effort in helping to fund economic development in the region.