ARE YOU STILL HERE MR HAASE?: A STUDY OF AUSTRALIA’S TAX REBATES FOR RESIDENTS IN ISOLATED AREAS

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Abstract

In 1945, Ben Chifley, the Australian Labor Party (ALP) Treasurer, introduced ‘an income tax concession in recognition of the disadvantages to which [the residents of prescribed areas of Australia] are subject because of the uncongenial climatic conditions, isolation and high cost of living . . . in comparison with [other] parts of Australia.’ When considered in the light of personal incomes and tax liabilities of the period, the 40 pound (Zone A) rebate of tax was a significant concession indeed.

There were further increases in the 1940s, and in the mid 1950s its boundaries were changed to broaden its application. Reviews of the rebate paused in the 1960s. However changes continued at reasonably regular intervals throughout the 1970s, 80s and 90s. A particularly significant change took place under the stewardship of the then Liberal Party Federal Treasurer, John Howard, in 1981.

However despite many subsequent submissions to successive Federal Governments, including a recommendation by the Henry Review, that ‘the zone tax offset should be reviewed,’ this paper notes that no further increases of the Zone Rebate have taken place since 1993.

This paper suggests that the primary factor influencing the reluctance of Federal Governments to address the, now trivial, tax concession is that the political capacity of rural and remote voters has waned. Interestingly, when John Howard, as Prime Minister in 2006, was questioned as to when the rural and remote taxpayers might expect an increase in the Zone Rebate, he expressed an opposing view to the one he put forward in 1981 and even suggested that the rebate may be unconstitutional.

More recently, an ALP Prime Minister gave the same answer, to the same question, in May 2013 – that is, that the Zone Rebate may be unconstitutional. She also reiterated a statement made by Liberal Treasurer Peter Costello in 2006, that ‘it is the preferred policy of the Government to cut taxes for all Australians . . . rather than provide geographically targeted tax cuts through increases in the zone tax rebate.’

This paper suggests that the ‘concession in recognition of the disadvantages to which [rural and remote taxpayers] are subject’ has been surpassed by the political expediency that the number of taxpayers in the Bush is now numerically inferior to the number of voters in the cities of Australia.

Political considerations are so powerful that proposals to review the tax concession are met with the reply – ‘Are you still here Mr Haase?’
1  INTRODUCTION

‘Full of bright hopes, we rested in that land of Wait-a while, speaking of the years to come, when the bush-folk will have conquered the Never-Never and lain it at the feet great cities.’

(Jeannie Gunn, Australian Novelist, 1870 - 1961)

This paper broadly looks at the concept of reducing the tax liability of certain taxpayers to compensate those in a less favourable social or economic position than the general population of taxpayers.\(^1\) Specifically it looks at rebates of taxation, or tax-offsets, granted to reduce the tax liability of taxpayers living or working in remote regions of Australia.

In particular this paper examines a rebate of tax to grant those taxpayers ‘an income tax concession in recognition of the disadvantages to which [the residents of prescribed areas of Australia] are subject because of the uncongenial climatic conditions, isolation and high cost of living . . . in comparison with [other] parts of Australia.’\(^2\) That tax concession is generally referred to as ‘Zone Rebate’\(^3\), or more commonly ‘Zone Allowance’.

When the 40 pound ($80) Zone A rebate of tax was introduced, in 1945, it was a significant concession. There were subsequent reviews which broadened its boundaries and changes were continued at reasonably regular intervals until the 1990s.

However since 1993, no amendments to the tax concession have taken place. There have been some proposals put forward by rural and remote taxation practitioners and, in 2010, the final report of the Henry Review included a recommendation that ‘[t]he zone tax offset should be reviewed. If it is to be retained, it should be based on contemporary measures of remoteness.’\(^4\)

However all of those subsequent proposals have been rejected by successive Federal Governments. This paper looks at some of those proposals, and in particular that of Fullarton and Haase, which sought to tie Zone Rebate tax concessions to the relief of debts incurred under the higher education contribution scheme (HECS)\(^5\) for residents of the remote zones. That proposal was dismissed outright by the then Federal Treasurer in 2007.\(^6\)

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1 CCH Australia Ltd, Asprey Report - An Analysis (1975) para 301.
2 Income Tax Assessment Act (1936) (Cth) s 79A.
3 Ibid.
5 The higher education contribution scheme (HECS) was changed to the higher education loan program (HELP) in 2005 to assist students to pay tertiary education fees. It is now referred to as HECS-HELP.
6 Letter from Peter Dutton to Barry Haase, 19 January 2007 (held by author).
This paper suggests the reluctance of Federal governments to increase taxation concessions to compensate for the uncongenial climatic conditions, isolation and high cost of living of remote Australian taxpayers is influenced solely by political expedience. Numerically, voters in those regions are now vastly outnumbered by, and of less political significance than, other Australians.

It concludes that the political factor of electoral influence is greater than the legal, or socio-economic, factors of equity or fairness, referred to as vertical equity, and considered an essential element of a ‘good’ taxation system, in defining government taxation policies.

2 TAX REBATES FOR RESIDENTS OF ISOLATED AREAS IN AUSTRALIA

‘I love a sunburnt country,
A land of sweeping plains,
Of ragged mountain ranges,
Of droughts and flooding rains.’

(Dorothea Mac Keller, Australian Poetess, 1885 - 1968)

To provide clarity as to the regions of Australia under scrutiny, the map shown in Figure 1, describes the region of Australia considered to be ‘remote’ by the Australian Bureau of Statistics (ABS).

Figure 1: Map of Australia illustrating the 2006 Remoteness Structure

(Source: Australian Bureau of Statistics, the 2006 Remoteness Structure)

7 CCH Australia, above n 1.

It is no coincidence that the remote areas of Australia, as depicted in the map in Figure 1, are largely unpopulated. They are some of the harshest and most uncongenial physical environments in the world.

As shown in Figure 2, the Pilbara region of Western Australia has daily maxima in the summer months of over 40 °C and the climatic conditions are most unpleasant.

![Average daily maximum temperature January](https://www.bom.gov.au/climate/map/temperature/IDCJCM0005 temperature.shtml)

**Figure 2: Western Australia’s average daily maximum temperature for January**

Note: the original map is in colour. Isotherms are all above 24 °C and not under 18 °C (which are similar shades of grey in this reproduction)

(Source: Australian Government Bureau of Meteorology⁹)

The north west of Western Australia is largely a barren, stony desert landscape with sparse vegetation. It has long periods of drought coupled with flooding rains when rotating tropical storms cross the northern coastline. At times, the desert is flooded, vegetation blooms and then the land returns to its parched state for months and sometimes years.

The rotating tropical storms (known as cyclones) bring rain to the region, but they also bring devastating tempests and flash flooding. The damage can be considerable: lives are lost, stock destroyed and communities isolated for days, sometimes weeks, due to damage to transport infrastructure.¹⁰

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As indicated in Figure 3, tropical cyclones can cross the coast anywhere between Carnarvon and Broome, but the Pilbara region is under the greatest threat. As many as six cyclones a year can occur in the Pilbara. In contrast, Carnarvon may not be subject to cyclone threats for many years.

![Selected Tropical Cyclone Tracks]

**Figure 3: The pattern of tropical cyclone paths in Australia**

(Source: Charles Sturt University Australian Emergency Management Forum Hazards Disasters and Survival)

The seasonal cyclones bring with them another discomfort. Generally the heat of the Pilbara is a ‘dry heat’. While it is uncomfortable, humans can survive in temperatures up to 50 °C. However, the sudden influx of moist tropical air brought with the cyclones raises the humidity to extremely uncomfortable levels. Periods of high humidity can last for days, weeks or even months if successive cyclones pass through the region.

Therefore despite recent population increases in parts of remote Australia due to the mining industry, the regions remain largely uninhabited. The inhospitable and uncongenial climate of Australia has encouraged population growth to be focussed on the more clement eastern seaboard and the south west of Western Australia.

The ABS determines that 1 per cent of Australia’s land mass contains 84 per cent of our population and that approximately half of our continent contains only 0.3 per cent of the population. This gross imbalance in the distribution of Australia’s 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.

11 Ibid.
In recognition of the physical and socio-economic disadvantages faced by the population of remote Australia a concession to the taxation of their income was introduced by the Australian government. The concept of a reduction in taxation for residents of isolated areas of Australia known as a ‘Zone Rebate’ was introduced in 1945 as an income tax concession which recognises the disadvantages to residents in ‘specific areas’ of Australia. According to the Australian Income Tax Assessment Act, these disadvantages include uncongenial climatic conditions, isolation and the high cost of living compared to those of other parts of Australia.

The map showing the areas of Zone Rebates as they applied in 1945 is depicted in Figure 4. A comparison with the map of remoteness, in Figure 1, indicates that the tax zones reflect the remoteness of those regions as suggested by the ABS.

![Figure 4: Australian tax rebate zones in 1945](Source: NATMAP NMP/84/002.24)

In 1945, the ‘specific areas’ consisted of two zones. Zone A included nearly the entire continent above the 26th parallel and some offshore islands with the exception of approximately 50 per cent of eastern Queensland. Zone B, which is deemed to be less remote, includes the remainder of the continent except for highly populated areas.

When considered in the light of personal incomes, and tax liabilities of the period, the 20 pound rebate of tax was a significant concession indeed. There were further increases in the 1940s, and mid 1950s, and its boundaries were changed to broaden its application.
Although reviews of the rebate paused in the 1960s, changes continued at reasonably regular intervals throughout the 1970s, 80s and the early 1990s. A particularly significant change took place under the stewardship of the then Liberal Party Federal Treasurer, John Howard, in 1981.

‘Special areas’ of Zones A and B were further delineated within those zones to recognise the extreme uncongenial climatic conditions, isolation and the high costs of living compared with the residents of the zones generally. The impact of the introduction of those special areas is reflected in Figure 5. The Zone Rebate for the taxpayers in the ‘special areas’ was increased to $750 per annum (and increased by 50 per cent of the individual taxpayers dependent rebates).

Taxpayers in the ‘special areas’ of both zones were deemed to be ‘most remote’. ‘Most remote areas are defined as those being are more than 250 kilometres from the nearest urban centre with a population 2 500 or more, as at the 1981 census.’

However the 1981 amendments excluded the rest of Australia’s remote taxpayers who received no increase in compensation for the disadvantages described in s 79A.

![Figure 5: Australian tax rebate zones in 1981](Source: NATMAP G 8961.E74 1984)

12 *Income Tax Assessment Act (1936) (Cth) sub-s 79A(3D).*

13 *Income Tax Assessment Act (1936) (Cth) s 79A; $338 per annum (and increased by 50 per cent of the individual taxpayers ‘dependent rebates) for those in Zone A; and $57 per annum (and increased by 50 per cent of the individual taxpayers ‘dependent rebates).*

14 This map is reproduced with permission of Document Supply Services: National Library of Australia, ACT 2600.
Since 1981 there were some small increases in the Zone Rebates, which currently consist of an amount of $338 for Zone A, $57 for Zone B and $1,173 for Special Areas in both Zones. In addition those rebates are increased by a further amount based on a percentage of certain rebates for dependents, and being 20 per cent for Zone B and 50 per cent for Zone A and the Special Areas.

However given that the corresponding rebates in 1981 were $216 for Zone A, $36 for Zone B and $750 for special areas in both zones. The increases have been very modest indeed.

Taxpayers in the zones now consider the fiscal compensation afforded to be extremely trivial. Fullarton noted a comment from an interviewee in his research whose opinion as to the impact of Zone Rebates as recompense for the uncongenial climate, isolation and high cost of living in prescribed remote areas of Australia. He said:

> It’s a load of bullshit. It’s a load of wank. It’s not even it’s just the difference of a tank of fuel. Put it this way, for the amount of tax I was putting into the big bucket, I don’t think that our concessions in the North West matched those of people who had the benefits they had down south or anywhere.\(^\text{15}\)

How is it that the once ‘significant concession’ has become the value of ‘a tank of fuel’? This paper suggests that a general drift in population away from the remote regions towards the urban areas has reduced the electoral influence that voters in the ‘Bush’ once had.

### 3 THE POLITICAL INFLUENCE OF TAXPAYERS IN THE REMOTE REGIONS

> ‘I am back from up the country -- up the country where I went Seeking for the Southern poets’ land whereon to pitch my tent; I have left a lot of broken idols out along the track, Burnt a lot of fancy verses -- and I’m glad that I am back.’

*(Henry Lawson, Australian Poet, 1867 – 1922)*

To illustrate the general rural/urban population shift in Australia, an investigation of ABS reports, shown in Table 1, indicates the following population distribution for Western Australia.

<table>
<thead>
<tr>
<th>Year</th>
<th>Western Australian Population</th>
<th>Perth Population</th>
<th>Urban per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1901</td>
<td>193 601</td>
<td>70 700</td>
<td>36.52</td>
</tr>
<tr>
<td>1947</td>
<td>502 480</td>
<td>298 471</td>
<td>59.40</td>
</tr>
<tr>
<td>1976</td>
<td>1 144 343</td>
<td>805 747</td>
<td>70.41</td>
</tr>
<tr>
<td>1981</td>
<td>1 273 624</td>
<td>898 918</td>
<td>70.58</td>
</tr>
<tr>
<td>1986</td>
<td>1 406 929</td>
<td>994 472</td>
<td>70.68</td>
</tr>
<tr>
<td>1991</td>
<td>1 586 825</td>
<td>1 143 249</td>
<td>72.05</td>
</tr>
<tr>
<td>1996</td>
<td>1 726 095</td>
<td>1 244 320</td>
<td>72.09</td>
</tr>
<tr>
<td>2001</td>
<td>1 832 008</td>
<td>1 325 392</td>
<td>72.35</td>
</tr>
<tr>
<td>2006</td>
<td>1 959 088</td>
<td>1 445 078</td>
<td>73.76</td>
</tr>
<tr>
<td>2011</td>
<td>2 239 170</td>
<td>1 670 953</td>
<td>74.46</td>
</tr>
</tbody>
</table>

Table 1: An Indication of the Increase in Influence of Urban Voters in Western Australia 1901 – 2011

(Source: Australian Bureau of Statistics Census Data\(^\text{17}\))

To exacerbate the alienation of taxpayers in the remote regions of Western Australia, Fullarton found that, despite the overarching Federal electorates, such as Kalgoorlie which encompassed most of remote Western Australia, being held by the Liberal Party, State voting patterns indicate that the electors of the extremely harsh and remote Pilbara and Kimberley regions are Australian Labor Party supporters.\(^\text{18}\) This paper later suggests that that was a key influence when the then Liberal Treasurer dismissed Haase’s proposal for a review of Zone Rebates in 2007.\(^\text{19}\)

Not only has the Zone Rebate diminished in relative value, anomalies have developed since 1945. Not all of ‘remote Australia’ has remained remote. An example is the City of Darwin. It has a population of 120,586,\(^\text{20}\) which includes an estimate of approximately 70,000 taxpayers.\(^\text{21}\) Darwin is included in Zone A which allows

\(^{16}\) For comparative analysis the geographical region of Perth has been applied consistently. There has been an expansion of the Perth metropolitan area over 110 years. Areas once considered rural such as Gosnells have been included in this population. The once agricultural area Gosnells is now a suburb of the Perth metropolitan area.

\(^{17}\) Australian Bureau of Statistics, Census Data

\(^{18}\) Fullarton, above n 15, 28.

\(^{19}\) Dutton, above n 6.


\(^{21}\) This figure has been estimated by dividing the number of individual income tax returns lodged in 2011 provided by the Australian Taxation Office Taxation Statistics <http://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Tax-statistics/Taxation-statistics-2010-11/?page=35#Individuals__tax> at 10 November 2013 (12.6m), by the entire Australian population for 2011 as provided by Australian Bureau of Statistics, Census Data 2011, (21.5m)
taxpayers to claim a $338 rebate. This is 55 per cent 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 railway and regular flights to Asia, it can no longer be regarded as a remote area.

Three of Queensland’s regional northern coastal cities each have a population, in excess of 60,000. The ABS 2011 census data shows Cairns to have a population of 224,436, Townsville 217,897 and Mackay 166,811. They are all situated in the present Zone B and have a combined population of 609,144. This represents roughly 357,000 taxpayers, which is 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 357,000 Zone B taxpayers, who are residents of those large cities, may represent an estimated annual cost of over $25.5 million to Commonwealth revenue.

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. However 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.

From a more general perspective, the review of Australia’s future tax system’ for the 2006-07 financial year some 530,800 taxpayers received the zone and overseas forces tax offset to the estimated value of $225 million. In 2010-11 those figures had risen to 605,540 taxpayers and the value to $273 million, a mere average of $450 per annum or less than $9 per week.

22 Ibid.
23 Ibid.
24 This estimate is based on statistics provided by the Australian Government, Architecture of Australia’s tax and transfer system (2010) which shows that 530,800 taxpayers received the zone and overseas forces tax offset to the estimated value of $A225m, in the 2006-07 financial year or an average of $424 each. Given that that figure contains ALL taxpayers from ALL zones the average Zone B rebate is estimated to be 57/338ths (Zone B/Zone A) of that figure. Further, Australian Taxation Office Taxation Statistics for 2011 show the average zone rebate to be $450. Without analysing data from each specific district the actual figure is difficult to estimate, however for the purposes of this paper the estimate is considered sufficient to demonstrate the point; Australian Taxation Office, above n 21.
26 Australian Taxation Office, above n 21.
In Fullarton’s interviewee’s terms, that is around 260 litres of fuel in Pannawonica, or perhaps two Toyota Landcruiser tanks of fuel. To place that sum in a practical context, it would purchase sufficient fuel to travel to Perth from Pannawonica, and half of the return journey.

A further geographic anomaly is that of Pannawonica, in Western Australia’s Pilbara. It is considered to be in ordinary Zone A ($338 plus 50 per cent of dependent’s rebate) yet it is one of the most isolated communities, in one of the harshest climatic regions in Australia.

Fullarton suggests:

that the physically harsh living environment and heavy working conditions of the Pilbara region may have influenced the blue-collar workers’ perceptions that their income tax rates were excessive and ‘unfair’. Their physical isolation may have led to an increased perception of social distance, which in turn may have led to an increased resistance to paying tax. 28

The poor level of compensation for the particularly uncongenial climatic conditions, isolation and high cost of living in the remote communities of Australia reduces the level of tax compliance. Fullarton noted that over 18 per cent of taxpayers resident in the Pilbara mining community of Pannawonica had engaged in the mass-marketeted tax avoidance schemes of the 1990s. That was a rate nearly 46 times higher than that of the average Australian taxpayer.29

Therefore this paper suggests a review of Zone Rebates is urgently required to restore its relevance to addressing the imbalance of vertical equity caused by 20 years of its oversight by successive Federal governments.

However it suggests that the primary factor influencing the reluctance of Federal Governments to address the now trivial tax concession is that the political capacity of rural and remote voters has waned. While it may be fair and equitable in a legal and social sense to address the concession, it has little or no political benefit. In fact it may be contrary to the interests of government to address the matter of Zone Rebates.

This paper now considers the political impact of taxpayers resident in the remote zones. Figure 6 shows the Australian Federal electorates and their respective voting results of the 2010 election.

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27 Toyota Landcruisers are by far the much preferred vehicle for the ‘Bush’ people. They are large, robust, four wheel drive capable and have a high highway speed. Though modern technology has helped, they are not very fuel efficient and are often fitted with large fuel tanks. Other types of vehicles are rarely present in the parking areas of Pilbara hotels.

28 Fullarton, above n 15, 286.

29 Data of 2001 survey distribution by postcode; Email from Kristina Murphy to Alexander Fullarton, 20 September 2007. Fullarton, above n 15, 5.
This paper refers to the 2010 - 13 Labor government as current Liberal government was only elected in August 2013 and it is unfair to expect action as to a review of Zone Rebates from that administration at this time. It is also deemed pertinent as the Prime Minister of Labor government expressed the same views as to Zone Rebates as did a previous Liberal Prime Minister in 2006.

Comparison of the map of the 2010 Australian Federal Election to the map of the Australian tax rebate zones in 1981, in Figure 5, shows that only 13 of the total of 150 members of the House of Representatives represent taxpayers in the remote zones.

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31 Julia Christensen, Interview with Julia Gillard, Prime Minister of Australia (Darwin, 26 April 2013).

32 Letter from Peter Costello to Barry Haase, 21 February 2006 (held by author).
<table>
<thead>
<tr>
<th>Electorate (33)</th>
<th>Held by (34)</th>
<th>Registered Electors (35)</th>
<th>Percentage of Australian Electors (36)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farrer (NSW)</td>
<td>Liberal</td>
<td>94 026</td>
<td>0.67</td>
</tr>
<tr>
<td>Parkes (NSW)</td>
<td>National</td>
<td>100 170</td>
<td>0.71</td>
</tr>
<tr>
<td>Capricornia (QLD)</td>
<td>ALP</td>
<td>91 961</td>
<td>0.65</td>
</tr>
<tr>
<td>Dawson (QLD)</td>
<td>Liberal/National</td>
<td>94 533</td>
<td>0.67</td>
</tr>
<tr>
<td>Herbert (QLD)</td>
<td>Liberal/National</td>
<td>91 044</td>
<td>0.65</td>
</tr>
<tr>
<td>Kennedy (QLD)</td>
<td>Independent</td>
<td>94 434</td>
<td>0.67</td>
</tr>
<tr>
<td>Leichhardt (QLD)</td>
<td>Liberal/National</td>
<td>93 113</td>
<td>0.66</td>
</tr>
<tr>
<td>Maranoa (QLD)</td>
<td>Liberal/National</td>
<td>97 892</td>
<td>0.69</td>
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<tr>
<td>Lingiari (NT)</td>
<td>Country Liberal</td>
<td>61 168</td>
<td>0.43</td>
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<tr>
<td>Solomon (NT)</td>
<td>ALP</td>
<td>59 891</td>
<td>0.43</td>
</tr>
<tr>
<td>Grey (SA)</td>
<td>Liberal</td>
<td>99 775</td>
<td>0.71</td>
</tr>
<tr>
<td>Durack (WA)</td>
<td>Liberal</td>
<td>85 811</td>
<td>0.61</td>
</tr>
<tr>
<td>O’Connor (WA)</td>
<td>WA Nationals</td>
<td>92 902</td>
<td>0.66</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1 156 720</td>
<td>8.21</td>
</tr>
</tbody>
</table>

Table 2: Federal Representation of the Remote Regions

Table 2 makes the comparison of population of remote electors to the national population. Apart from this being simply less than 10 per cent of parliamentary representation, it is also noted that only two of the 13 electorates were held by the government at that time.

Given that the electorates of Capricornia, Farrer, Maranoa and Parkes cover areas outside the remote zones and that no seat is held by 100 percent of the primary poll, the populations included in Table 2 are inflated by the number of electors within the electorate, but outside the remote zones. In 2010 government supporters, with elected representatives, was only 67 735 or less than one half of one per cent of the national population of electors.

33 Capricornia, Farrer, Maranoa, and Parkes are not entirely included in Zone B therefore the population contained in Zone B is inflated.


36 National total of enrolled voters 14 086 869, Ibid.

37 The electorates of Maranoa and O’Connor were held by a two party preferred margin of nearly 73 per cent, and Durack and Farrer by over two-thirds of the poll. However while very representative of their communities none of those members were in government.

38 Australian Electoral Commission, above n 35.
Barry Haase, in the electorate of Durack, and a supporter of Zone Rebate reviews, represented nearly half that number with 26,155 electors preferring the ALP representative. Given those statistics, it is not surprising that the Federal Government displays little interest in reviewing Zone Rebates.

Further, alienating 427,000 taxpayers/electors, as proposed by some of the submissions to Zone Rebate reviews, examined later, is simply not in the interest of any major party wishing to form government. That situation applies in particular to the ALP which would lose the electorate of Solomon and to the Liberal/National party for the electorates of Dawson and Herbert.

In 2006, when Barry Haase presented Fullarton and Winfield’s proposal to increase Zone Rebates for the taxpayers of his vast and remote Western Australian electorate of Kalgoorlie to the then Liberal Treasurer of Australia, Mr Costello simply addressed the following points: How many [electors/taxpayers] are there? Do they vote for us? On hearing Mr Haase’s statistical estimate and electoral assessment, Mr Costello paused and replied ‘Are you still here Mr Haase?’

That there is little political gain in reviewing Zone Rebates is a possible explanation for John Howard, as Prime Minister in 2006, expressing an opposing view of support to for Zone Rebates which he put forward in 1981, when he even suggested that the rebate may be unconstitutional.

Further Julia Gillard, the then ALP Prime Minister, gave a similar answer, to the same question, in April 2013 – that is, that the Zone Rebate may be unconstitutional. In doing so she implied support for a statement made by Liberal Treasurer Mr Costello in 2006, that ‘it is the preferred policy of the Government to cut taxes for all Australians . . . rather than provide geographically targeted tax cuts through increases in the zone tax rebate.’

This paper suggests that concerns expressed by the Treasurer and the Prime Minister as to the Zone Rebates being ‘unconstitutional’ are based on The Constitution which states ‘The Parliament shall, subject to this Constitution, have power to make laws for the peace order, and good government of the Commonwealth with respect to: taxation; but so as not to discriminate between States or parts of States;

Should this be the case then s 79A of the Income Tax Assessment Act 1936 has been unconstitutional since 1955. It is curious to note that the legislation was introduced by the Parliament of Sir Robert Gordon Menzies, a noted Barrister and scholar of the

39 Ibid.

40 Interview with Barry Wayne Haase, Federal Member for Kalgoorlie (Telephone interview, 21 June 2006).

41 Costello, above n 32.

42 Christensen, above n 31.

43 Costello, above n 32.

44 Commonwealth of Australia Constitution Act 1900 (Cth), sub-s51(ii).
Constitution. Another constitutional scholar and radical reformer was Gough Whitlam, who whilst making many attempts at constitutional change did not view s 79A of the ITAA 1936 as ‘unconstitutional’, in fact in the time of the Whitlam government s 79A was reviewed. Further Malcolm Fraser, who did achieve three constitutional changes and many taxation reforms, did not view s 51(ii) as an impediment to reviewing s 79A in 1981 and 1983.

Further reviews took place in 1991 and 1992, the last review, under the Keating Government was another lawyer. It appears therefore that if s 79A is ‘unconstitutional’ under sub-s 51(ii) of The Constitution, then the breach has existed for over 60 years through the administrations of no less than 12 Prime Ministers including that of Sir Robert Gordon Menzies Australia’s longest serving Prime Minister, and the famous war time Prime Minister, John Curtin, who introduced the ITAA 1936 in 1942.

Given that The Constitution predates s 79A of the ITAA 1936 by some 42 years either all of those administrations, both Liberal and ALP, have been acting ‘unconstitutionally’ or the current treasury advice is mistaken. Perhaps the reference to ‘unconstitutionality’ is merely politically expedient.

There are two alternatives as to why s 79A is not ‘unconstitutional’:-

(a) It is not considered ‘taxation’ which would subject it to s 51(ii), but rather ‘financial assistance’ and falls under s 96 of The Constitution which provides, ‘the [Federal] Parliament may grant financial assistance to any State on such terms and conditions as the Parliament thinks fit.’ or;

(b) ‘Unlike deductions, tax offsets and rebates are not taken into account in determining taxable income. Instead they are subtracted from the tax payable on that taxable income s 4-10(3) ITAA 1997. The amount of any tax offset or rebate to which a taxpayer is entitled is independent of the level of the taxpayer’s taxable income or marginal tax rate.’

In either case s 79A reduces individual taxpayer’s liability to their tax debt and not to the taxation levied therefore it is outside the definition of ‘taxation’ in sub-s 51(ii) and the limitation does not apply.

If s 79A is for the purpose of granting to residents of the prescribed area an income tax concession in recognition of the disadvantages to which they are subject because of the uncongenial climatic conditions, isolation and high cost of living in comparison with parts of Australia, then the rebate is clearly intended to be a compensation for those residents of the zones and not a penalty to those who are not.

An additional burden is what the writers of The Constitution also envisaged as treating states differently. This paper suggests the Zone Rebate is therefore outside the scope of sub-s 51(ii), hence its 70 year existence.

This paper now moves on to review some of the proposals and calls for review of Zone Rebates that have occurred since 1990.

3 PREVIOUS REVIEW PROPOSALS

‘The odds were a trifle heavy – but he wasn’t the sort to flinch,
So he opened fire on the army, did the boss of the ‘Admiral Lynch’

(Andrew Barton "Banjo" Paterson, Australian Poet, 1864 – 1941)

Some public appeals or formal submissions have been made for a review of Zone Rebates since 1990. Those that have, tend to come from rural and remote local councils, politicians and accounting or taxation practitioners resident in the regions. This section examines some of those proposals.

In 2001 a research paper on the History of Zone Rebate was presented to the Parliament of Australia. It found that the average rebate for the 1997-98 financial year was $407.47

As to the real value of the rebate it states:

It is argued that the increases in the base amounts of the zone rebate have not been sufficient to offset the effects of inflation. For the rebate to have maintained the same value in real terms since its introduction, the ordinary rates for Zones A and B would have needed to be $886 and $147 respectively in 1999-00 while the special rate would need to have been $1710.48

It then suggests however, that ‘[a]lthough the base amount has not increased since 1993-94, the value of the rebate to taxpayers with dependents has increased because of the linkage with dependent spouse and sole parents rebates which are subject to annual indexation’.

That suggestion implies, that despite the rebate being between one third of its real value since its introduction for Zones A and B, and two thirds for the Special Zones, the linkage to the other rebates would correct the discrepancy over time. As the increase, due to annual indexation of the other rebates, has resulted in at increase of just $43 per annum or 80 cents per week 13 years later, that implication appears unfounded.

However the paper does acknowledge that the Zone Rebate had lost most of its original value in real terms. Despite that acknowledgement no adjustments to the Zone Rebate took place.

47 Ibid.
48 Ibid.
49 Ibid.
50 See above n 24 and accompanying text.
In 2003 Winfield and Fullarton submitted the proposal for a Zone Rebate to Haase, the then member of the House of Representatives for the electorate of Kalgoorlie. The full submission is contained in Appendix A. Not only did it suggest a reconstruction of the regions for eligible taxpayers and an increase in Zone Rebates generally, but it also suggested that a discount be granted to university graduates who had HECS debts. The discount of HECS debts was to be evidenced by their eligibility for Zone Rebate as service within the remote zones.

The effect is that graduates who were resident in the Remote Area would have had their HECS contributions reduced by 25 per cent during the time they are residents of that area. Those that had become residents of Special zones within the Remote Area would have had their HECS contribution reduced entirely during the period of their residency.

All professionals would have been rewarded by outback service and the further outback the greater the reward. This would have had major impact particularly on the Health and Education Professions where HECS debts ranged from $29 995 for medical and law students to $10 794 for teachers and nurses.

As the proportion of teachers and nurses to medical and law students is heavily weighted towards the lower end of the scale and likewise the numbers of residents of Ordinary Remote Area to those in Special Remote Area, the cost to government revenue was most likely to be only $2 698 per graduate over three years. This could be considered a small contribution when compared to the encouragement of facilities and the existing cost to government in attempting to attract professionals away from cities.

The benefits by way of community enhancements and services were considered incalculable in terms of social and economic resources being encountered in the persistent drift toward the major cities of Australia. Once the flow of graduates to the outback became so great that the cities were struggling to retain professionals, the benefit could have been reduced or suspended.

A further factor in costing the proposal was that graduates in remote localities were remunerated at twice and sometime three times the rate of their city counterparts and thereby are taxed at higher rates. The $2 698 tax offset would have been more than recovered by the higher tax revenue as the graduates reached the highest marginal rates of tax almost immediately, whereby the city counterparts would have spent many years in the 30 per cent taxation rate margin.

This proposal may have had positive outcome for the Government, the economy, the graduates and the people of the outback. It was suggested poignant and fitting time than to enact such legislation in ‘the year of the outback’ (2002).

In 2008 a number of submissions suggesting a review of the Zone Rebates were put to the Australia’s Future Tax System Review Panel. Fullarton’s submission, which included the suggestion that the Zones be restructured to reflect the population changes

51 Henry et al, above n 4.

to major cities within the Zones and increases in the tax offsets generally, included the connection to a reduction in HECS debts suggest earlier by Winfield and Fullarton in 2003. That submission is contained in Appendix B.

In 2011, Power suggested extensive changes to the Zone Rebate boundaries as illustrated in figure 7 to the 2011 Tax Forum.53

![Figure 7: Map of Proposed Zone Boundary Changes – Power 2011](http://www.aec.gov.au/Elections/federal_elections/2010/files/results-map-2010.pdf)

Those changes went a little further in their application than Fullarton’s submissions but were generally of similar intent. It is considered that certain communities within the existing zones are no longer as isolated or expensive in comparison with [other] parts of Australia as they were in 1945. In addition, as to ‘uncongenial climatic conditions’, it is noted many Victorians and New South Welshmen move, at least periodically, to Northern and Far Northern Queensland cities to ‘enjoy the weather’. It is difficult to compare the lush tropical climate of Cairns with the harsh, hot, dry conditions of the Pilbara region of Western Australia.

Power, was a provincial Chartered Accountant from Biloela in Queensland (Zone B) and had been canvassing the cause of Zone Rebate reviews since 1981. In 1981 he


made a submission to the Zone Allowances Inquiry\(^{55}\) of that year. In that submission he proposed the concept of ‘special areas’. It is noted that the Cox Inquiry\(^{56}\) made a recommendation for the ‘creation of ‘special areas’ for particularly isolated areas in each zone, with higher rebates for residents’.\(^{57}\)

This paper now examines the remaining eight of the 214 submissions to the Tax Forum 2011 that referred to reviews for the Zone Rebates. Apart from the Regional Development Australia Far West NSW’s radical proposal to discount taxation in the Broken Hill area by 20 – 50 per cent as a trial to quantify the effect of Zone Rebates on the impact of rural/urban population drift,\(^{58}\) most merely noted the devaluation and effectiveness of Zone Rebate.

Mc Elone, a representative of the National Farmers’ Federation, noted ‘[t]here is a tax zone rebate system in place at the moment, but even the Henry Review ignored it and it’s out of date, it needs to be relooked at and revamped to make sure that there is a real need for it’.\(^{59}\) The National Farmers’ Federation submission stated ‘The NFF welcomes this announcement while noting that the review does not suggest that Zone taxes are either good or bad, but rather that the system is outdated and in need of an upgrade’.\(^{60}\)

The National Farmers’ Federation further suggested that ‘the scheme [Zone Rebates] be extended to businesses. Such a reform would inject a major new incentive for people to live and work outside the capital cities’.\(^{61}\)

The Western Australian government’s submission also went a little further and suggested that:

> Western Australia’s priorities for reform of existing Commonwealth taxes include the restoration of the current system of income tax zone rebates to a level that reflects the higher cost of living in remote regions.\(^{62}\)

It further stated:

> Whether by enhancing the current rebate scheme, or replacing it with an alternative grant-based scheme struck at realistic levels, this reform offers part of the solution to attracting

\(^{55}\) Trevor Kingston Power, Submission to Public Inquiry into Income Tax Zone Allowances (Australia), Report / of the Public Inquiry into Income Tax Zone Allowances (1981). [Cox Inquiry].

\(^{56}\) Ibid.

\(^{57}\) Parliament of Australia, above n 46, 3.


\(^{60}\) Ibid 2.

\(^{61}\) Ibid.

and retaining a skilled labour force in regions of high productivity, including where resource endowments are high.\textsuperscript{63}

The Western Australian Chamber of Commerce and Industry also considered reviewing the Zone rebate to ensure ‘that the incentives apply to those areas where workers are most needed. [Further] it may be necessary to extend the rebate beyond remote areas’.\textsuperscript{64}

The Regional Development Australia Goldfields Esperance, Western Australia considered restricting Zone Rebates to bona-fide residents. It suggested ‘[a]ny review should only apply to those persons legitimately residing in rural and remote areas, not for “fly in-fly out” employees’.\textsuperscript{65}

It further suggested that:

> The review could remove access to the Taxation Zone Rebates to communities of [less than] 100 000 population as they would have the critical mass to create competition in retail, construction and service delivery etc that is not otherwise available at the same level in smaller communities.\textsuperscript{66}

O’Callaghan also stated that ‘[t]he [Zone] rebate as it currently presents could not be regarded as an incentive to relocate to listed zones.’\textsuperscript{67} However rather than reviewing Zone Rebates, she looked at providing non-fiscal incentives, in the form of accelerated payroll deductions, zone or profit-linked rebates [to] enable employers to compete more readily for staff in the employment market. The resultant increase in rural and regional employment would act as a stimulus for growth in struggling sectors, ensuring a more resilient and growing private sector and stronger communities. An example would be in the primary industries sector where currently a lack of employees leads to underutilisation of resources and low productivity. Increased access to farm workers would revitalize the industry.\textsuperscript{68}

The submissions generally consider the Zone Rebate to have been eroded through the efflux of time and some consider restoring the economic relevance of the Zone Rebate. Some have consider that the Zone Rebate may have some affect in retarding, or even reversing the population drift towards urban centres. However the Fullarton-Winfield proposal is unique in that it considers adding the benefit of reduced HECS/HELP debts to target professionals.

What they all have in common is that despite many recommendations of some parliamentary inquiries, in particular the ‘Henry Review’, successive governments have

\begin{itemize}
  \item \textsuperscript{63} Ibid.
  \item \textsuperscript{64} Chamber of Commerce and Industry – Western Australia, Submission to Parliament of Australia, \textit{A Tax Plan for Our Future: Tax Forum}, October 2011, 18.
  \item \textsuperscript{65} Development Australia Goldfields Esperance, Western Australia, Submission to Parliament of Australia, \textit{A Tax Plan for Our Future: Tax Forum}, October 2011, 2.
  \item \textsuperscript{66} Ibid 3.
  \item \textsuperscript{67} Anne Marie O’Callaghan, Western Australia, Submission to Parliament of Australia, \textit{A Tax Plan for Our Future: Tax Forum}, October 2011.
  \item \textsuperscript{68} Ibid.
\end{itemize}
chosen to ignore Zone Rebates. Instead successive Prime Ministers have stated that ‘it is the preferred policy of the Government to cut taxes for all Australians . . . rather than provide geographically targeted tax cuts through increases in the zone tax rebate.’

This paper now considers the factors influencing that political philosophical viewpoint in its conclusion.

4 CONCLUSION

‘You had better stick to Sydney and make merry with the "push",
For the bush will never suit you, and you'll never suit the bush.’

(Andrew Barton "Banjo" Paterson, Australian Poet, 1864 – 1941)

It is noted that during the period 2001 – 2008 letters to some of the Vice Chancellors of Australia’s universities soliciting support for the Fullarton-Winfield proposal resulted in the expression of some sympathy but generally they considered it none of their business.

The then Inspector General of Taxation expressed a desire not to get involved, and accounting and taxation professionals showed little interest. Opinion was expressed that if the disparity of vertical equity for taxpayers in the ‘Bush’ was so upsetting to the few ‘Bush’ professionals, why then, do they simply not move to the city where a qualified professional could lead a ‘better’ lifestyle?

This paper concludes that taxation principles and policies are inextricably linked to political expediency. It does not matter how rational social and economic arguments may be as to the adoption of practices and policies for the raising of taxation revenue by a government, the government will ultimately prioritise the political impacts of that tax policy over social and economic rationalism.

This conclusion is further supported by the Henry Review of 2012 which included a recommendation that ‘[t]he zone tax offset should be reviewed.’ The Australian Labor Party government of the day came to the same conclusion as its Liberal predecessors – there are simply not enough votes in it to make a difference. “Taxation is a very political thing.”

69 Costello, above n 32.

Summary of Recommendations

To tighten the definition of ‘residency’ in the tax legislation, so that the zone rebate/offset is available only to permanent residents of designated remote areas of Australia. To account for population shifts in Australia, over the past two decades, which have rendered some areas less remote, by deleting all of, or some portions of, Zone B and all of the metropolis of the City of Darwin from the schedules of isolated areas.

To substantially increase the rebates/offsets available to permanent residents of the present Zone A (except Darwin), any undeleted parts of Zone B, and the Special Areas within Zone A and outside Zone A, from their current inadequate level.

To provide an incentive for professional people to become residents of remote communities, in the form of a rebate/offset of repayments due under the Higher Education Contribution Scheme, and also, of a generally higher zone rebate/offset.

To achieve the above objectives at a total cost equal to, or less than, the total cost of present rebates/offsets. This will require a considerable reduction in the number of taxpayers presently entitled to this concession.

EXPLANATORY MEMORANDUM

Introduction

In Australian taxation terminology a ‘deduction’ is a dollar amount, which reduces taxable income, while a ‘rebate’ is a dollar amount, which reduces tax payable. In recent years, from 1999, the term ‘tax offset’ has been used to replace ‘rebate’, and both terms are still used interchangeably by tax professionals; consequently they are referred to as rebates/offsets in this paper.

The Income Tax Assessment Act states that the zone rebate/offset is “an income tax concession in recognition of the disadvantages to which they (residents of prescribed areas) are subject because of the uncongenial climatic conditions, isolation and the high cost of living……..in comparison with (other) parts of Australia”(S 79A(1)).

The ‘prescribed areas’ consists of two zones, Zone A, which, apart from about 50 percent of eastern Queensland, includes the entire continent above the 26th parallel and some offshore islands. Then Zone B, deemed to be ‘less remote’, includes the remainder of the continent except for the highly populated areas in the east, southeast and southwest, and also western Tasmania. There are also Special Areas in both zones, deemed to be ‘most remote’, which are more than 250 kilometres from the nearest urban centre (population 2 500 or more) (S79 (3D) (a), and Schedule 2).

The Zone rebate/offset 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 amount based
on a percentage of certain rebates/offsets for dependents, 20 per cent for Zone B and 50 per cent for Zone A and the Special Areas.

Residency

The legislation defines a resident of a prescribed area as including a taxpayer who is actually in that area, not necessarily continuously, for a period of more than one half of the year of income (S79A(3B) and (3C)). This can include tourists, casual visitors and workers on fly-in fly-out arrangements, all of which do little to add to the population infrastructure of a community. The fly-in fly-out system has been the principal reason for the depopulation of mining and mineral processing areas in the north of Australia.

This proposal recommends restricting the definition of resident to permanent residents who reside continuously in a remote area for more than one half of the year of income. Current provisions for 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/offset, should continue to apply.

Demographic Factors

“Half the area of the continent contains only 0.3 per cent of the population, and the most densely populated 1 per cent of the continent contains 84 per cent of the population….concentrated in urban centres, particularly the State and Territory capital cities”(ABS (3)). This gross imbalance in Australian population has been a source of concern because there are problems of security when large sections of the continent remain uninhabited.

There has also, in recent years, been a continuing population decline in rural areas due to internal migration, and population increases in fast growing areas on the coast of northern Queensland, in Darwin, and in Kalgoorlie/Boulder (ABS(3)). The effect of the above movements has been that remote inland pastoral and agricultural communities have disappeared or become still more remote, while some previously small towns have become thriving cities.

The City of Darwin, for example, capital of the Northern Territory, has a population of 90,000, which includes 42,000 taxpayers. This population is almost half that of the entire Territory (pop. 195,500), and the city has the fastest capital city growth rate of 2.3 per cent per year. 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, Darwin should no longer be regarded as a remote area; it will in fact be less remote from the rest of Australia than the City of Perth.

Three of Queensland’s regional northern coastal cities each have a population, which exceeds 50,000, Cairns (pop 115,000), Townsville (pop 130,000) and Mackay (pop 66,000). They are all situated in the present Zone B, have high growth rates, and a combined population of 311,000. This represents about 165,000 taxpayers, more than half the estimated 317,000 taxpayers entitled to a Zone B rebate/offset (Appendix 1).
Zone B provides an average individual taxpayer with a rebate/offset of $57 per year, and an average family taxpayer, with an employed spouse and two dependent children, with a rebate/offset of about $208 per year. These individual payments are not significant. 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/offset 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/offset 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, one alternative in this proposal considers that the other parts of Australia considered remote should be part of one zone, which attracts a uniform rebate/offset.

The simplest approach could be to retain the present Zones and Special Areas but remove from the Zone system all cities in Zone A and Zone B with a population exceeding 50,000 (Darwin and the three above Queensland cities). This would decrease the number qualifying for Zone A and Zone B entitlements by 42,000 and 165,000 respectively, to 101,000 and 152,000. There would continue to be 25,000 taxpayers in the Special Areas (Appendix 1). This approach will be referred to as Zoning Alternative 1.

A second approach could be to remove Zone B entirely from the system on the basis that those residing in the lower part of Australia, with the exception of Special Areas, can no longer be considered to be remote. This could be justified by pointing out the very small amount of rebate/offset currently available to Zone B residents. This would leave only one remote zone, the present Zone A, less Darwin, and reduce the number of remote zone taxpayers to 101,000 plus 25,000 in Special Areas (Appendix 1). This approach will be referred to as Zoning Alternative 2.

This proposal examines the cost of the above two alternative zoning systems in Appendix 2.

The alternative zoning systems are:

Zoning System Alternative 1 – The present zone system will be retained, but cities in Zone A and Zone B with populations exceeding 50,000 are deleted from remote area zoning. The Special Areas remain.

OR

Zoning System Alternative 2 - The metropolitan area of Darwin is deleted from remote area zoning, and the complete Zone B is also deleted, but the Special Areas in the current Zone B are retained as Special Areas outside a remote zone.
Nomenclature

The name of Zone A then becomes inappropriate and it is recommended that the current Zone A, as amended, be renamed the Remote Zone.

The Zone Offsets/Rebates

The effects of inflation and changed family structures have rendered the dollar amounts of offsets/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 per cent to 50 per cent 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/offset. Consequently few family taxpayers in remote areas can claim a significant rebate/offset for dependents, and this reduces the value of the ‘base’ part of the zone rebate/offset.

In this proposal, the dollar amounts of rebates/offsets for residents of Zones A and B, or 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 usually result in a total cost reduction (Appendix 2).

Two alternative methods of calculation will be examined:

Method A - This retains the present system of totalling fixed and base amounts, but the fixed amounts have been increased to $600 for permanent residents of Zone A and $100 for permanent residents of Zone B if Zoning Alternative 1 is adopted. If Zoning Alternative 2 is adopted, the fixed amount will be $1 000 for permanent residents of the Remote Zone. Under both alternatives the fixed amount is $2 000 for permanent residents of the Special Areas. The calculation of the base amounts has not changed.

OR

Method B - this calculates Rebates/Offsets as a percentage of the Tax Payable on Taxable Income (excluding the Medicare Levy). The percentages decrease as Taxable Income increases, as follows:

For permanent residents of Zone A (Zoning Alternative 1)

<table>
<thead>
<tr>
<th>Taxable Income-</th>
<th>1 to $30 000</th>
<th>25 per cent of Tax Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-$30 001 to $60 000</td>
<td>15 per cent of Tax Payable</td>
</tr>
<tr>
<td></td>
<td>$60 001 to $90 000</td>
<td>5 per cent of Tax Payable</td>
</tr>
<tr>
<td></td>
<td>exceeding $90 000</td>
<td>no rebate/offset on the excess</td>
</tr>
</tbody>
</table>
For permanent residents of Zone B (Zoning Alternative 1)
Taxable Income- $1 to $30 000  4 per cent of Tax Payable
- $30 001 to $60 000  3 per cent of Tax Payable
- $60 001 to $90 000  2 per cent of Tax Payable
- exceeding $90 000, no rebate/offset on the excess

For permanent residents of the Remote Zone (Zoning Alternative 2)
Taxable Income- $1 to $30 000  30 per cent of Tax Payable
- $30 001 to $60 000  20 per cent of Tax Payable
- $60 001 to $90 000  10 per cent of Tax Payable
- exceeding $90 000, no rebate/offset on the excess.

For permanent residents of Special Areas (both Zoning Alternatives)
Taxable Income- $1 to $30 000  40 per cent of Tax Payable
- $30 001 to $60 000  30 per cent of Tax Payable
- $60 001 to $90 000  20 per cent of Tax Payable
- exceeding $90 000, no rebate/offset on the excess.

HECS Rebate/Offset

Inherent in both methods is an additional rebate/offset of the annual compulsory repayment contribution, through the tax system, by a graduate who has an accumulated Higher Education Contribution Scheme (HECS) debt. This is calculated as 25 per cent of the year’s repayment contribution for permanent residents of Zones A and B, or the Remote Zone, and 100 per cent 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 expensive cash incentives. Details of an estimate of the number of taxpayers who have incurred HECS Assessment Debt in Northern Australia are contained in Appendix 3.

A comparison of the cost of rebates/offsets under existing and proposed methods is contained in Appendix 2.

Method A is based on the current system, and would consequently be more familiar to tax advisers and administrators. The fixed amount increases offered to taxpayers in Zones A and B are significant if Zoning Alternative 1, which reduces taxpayer numbers to 253 000, is adopted. However Zoning Alternative 2, which reduces taxpayer numbers still further to 101 000, allows a more generous fixed amount to be incorporated in the rebate/offset for Remote Zone taxpayers.

Method B calculates rebates/offsets as percentages of tax payable, these percentages decreasing in bands of increasing taxable income. It is a similar concept to HECS repayments through the tax system, where the percentage repayment increases through bands of increasing HECS repayment income (Appendix 2). The calculation is simple, and to a certain extent ‘inflation proof’, and could be incorporated into the ATO’s computer system.
The total cost of the HECS rebate/offset is currently negligible because only about two percent of remote area taxpayers have currently incurred a HECS debt, but it will probably increase over time (Appendix 2).

Both of the above calculation methods produce total costs, using an ‘average taxpayer’ model, close to the level of total cost of the existing system. The tighter residential requirement recommended would also reduce the calculated total costs of the above-proposed rebates/offsets by several millions of dollars (Appendix 1).

Recommendations:

Zoning
The two zoning systems have been designed to produce almost identical total costs. A decision on the best alternative depends on the perception of the degree of remoteness suffered by residents of the reduced Zone B.

Calculation
Zone Rebate/Offset
The writers are equally divided on the merits of each calculation method. Either would be acceptable.

HECS Rebate/Offset
There are now reports of graduates leaving Australia in order to avoid HECS repayments. This will offer graduates an opportunity to continue to reside in this country and have the tax system make the repayments, without the need to live overseas.

Conclusion
The research, which has been involved in developing the above proposals, has revealed that the current zone allowance system is in need of overhaul. It provides small benefits to the undeserving and mediocre benefits to the deserving. The above proposals, which delete the benefits applied to many city and southern residents, and increase those applied to residents in remote communities, are an attempt to properly compensate for the disadvantages of remote location, and also to encourage more permanent residents to settle in northern Australia. This paper has indicated that the proposals require little or no additional cost to revenue.

The proposals apply equally to members of the defence forces who are already provided for in the legislation (Section 79A).

R R Winfield, FCPA, M Com(UWA). A R Fullarton, M Tax(Curtin), Reg Tax Agent.

April 2003.
References

2 Commonwealth of Australia, Income Tax Assessment Act 1936, s 79A.

APPENDIX 1

Estimated number of Taxpayers in Remote Areas

The Australian Taxation Office (ATO) publishes totals only for the most recent year (1999-2000) of the number of taxpayers (485,141) allowed zone rebates/offsets, and the dollar amount ($193 million) of these rebates/offsets.

The following is a broad estimate of the number of taxpayers in each Zone and in the Special Areas for that year based on published ATO statistics of rural and regional areas, part of each of which are in Zone B. Although three years have now passed since the above statistics were issued, there is no reason to believe that the proportion of taxpayers in each area has changed significantly.

<table>
<thead>
<tr>
<th>Area</th>
<th>Number (approx)</th>
<th>per cent</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW rural</td>
<td>505,886</td>
<td>10 per cent</td>
<td>51,000</td>
</tr>
<tr>
<td>Qld rural</td>
<td>423,651</td>
<td>20 per cent</td>
<td>85,000</td>
</tr>
<tr>
<td>Qld regional</td>
<td>332,860</td>
<td>20 per cent</td>
<td>133,000</td>
</tr>
<tr>
<td>SA rural</td>
<td>149,145</td>
<td>20 per cent</td>
<td>30,000</td>
</tr>
<tr>
<td>WA rural</td>
<td>178,594</td>
<td>20 per cent</td>
<td>35,000</td>
</tr>
</tbody>
</table>

Estimated number of Taxpayers in Zone B and its Special Areas 334,000
Actual number of Taxpayers in all remote zones (rounded) 485,000
The difference represents the est. no. in Zone A and its Spec. Areas 151,000

Estimating that Special Areas account for 5 per cent of Zone Taxpayers

<table>
<thead>
<tr>
<th>Area</th>
<th>Number</th>
<th>per cent</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers in Zone A</td>
<td>95 per cent of 151,000</td>
<td>143,000</td>
<td></td>
</tr>
<tr>
<td>Taxpayers in Zone B</td>
<td>95 per cent of 334,000</td>
<td>317,000</td>
<td></td>
</tr>
<tr>
<td>Taxpayers in Special Areas</td>
<td>8,000 + 17,000</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>Total zone taxpayers for 1999-2000</td>
<td>485,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Test these numbers by applying 1999-2000 zone rebate/offset rates

Assume an ‘average’ taxpayer with an ‘average’ family consisting of a spouse who has a substantial separate net income, and two dependent children who provide a notional tax offset of (2x$376) $752 which represents an ‘average’ base amount of the zone rebate/offset. Assume also that 15 per cent of taxpayers do not have dependents.
The cost of rebate/offsets for the above number of taxpayers in each Zone would be:

Zone A – (15 per cent of 143 000 x $338) 
+ (85 per cent of 143 000 x ($338 + 50 per cent of $752)) 
= $94.1 million

Zone B- (15 per cent of 317 000 x $57) 
+ (85 per cent x 317 000) x ($57 + 20 per cent of $752)) 
= $58.6 million

Special Areas – (15 per cent of 25 000 x $1 173) 
+ (85 per cent of 25 000 x ($1 173 + 50 per cent of $752)) 
= $37.3 million

Total estimated rebate/offset for 1999-2000 
Actual rebate/offset amount for 1999-2000

$190.0 million 
$193.0 million

The difference may be explained by the fact that the assumed percentage of taxpayers unable to claim for dependents may be a little too low.

Using the above numbers as a base, this proposal’s remote area taxpayer numbers would be:

Zoning System Alternative 1
Zone A (current Zone A less Darwin taxpayers) 
(143 000− 42 000)) = 101 000

Zone B (current Zone B less Cairns, Townsville & Mackay) 
(317 000 - 165 000) = 152 000

Special Areas = 25 000

Total = 278 000

Zoning System Alternative 2
Remote Zone (Zone A less Darwin taxpayers) = 143 000 – 42 000 = 101 000

Special Areas (no Zone B) = 25 000

Total = 126 000

Due to a lack of published data it is not possible to calculate the effect of the tighter residency recommendation on the above numbers. The recommendation would almost certainly remove from the zone system all those taxpayers employed in a remote zone on a fly-in fly-out basis, and also a considerable number who visit towns in a remote zone for some months during a year, but who are not zone residents. This could reduce the above numbers by from two to five per cent.

APPENDIX 2

Comparison of the total cost of proposed rebates/offsets, using 1999-2000 estimated Taxpayer numbers, with the cost of the present system

Using the ‘average’ taxpayer example in Appendix 1, whose HECS repayment income equals taxable income of $35 000 for the year, with a consequent $6 880 tax payable (at year 2002 rates), and who has two child dependents. Assume that 15 per cent of taxpayers do not have dependents. Further assume that approximately 2 per cent of 1999-2000 remote taxpayers have incurred an accumulated HECS debt (Appendix 3).
<table>
<thead>
<tr>
<th>Zoning System Alternative 1</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Method A – Zone A</strong> – (15 per cent x 101 000 x $600)</td>
<td>$92.88</td>
</tr>
<tr>
<td>+ (85 per cent x 101 000 x ($500 + 50 per cent of $752))</td>
<td></td>
</tr>
<tr>
<td><strong>Zone B</strong> – (15 per cent x 152 000 x $100)</td>
<td>34.63</td>
</tr>
<tr>
<td>+ (85 per cent x 152 000 x ($100 + 20 per cent of $752))</td>
<td></td>
</tr>
<tr>
<td><strong>Special Areas</strong> – (15 per cent x 25 000 x $2,000)</td>
<td>57.99</td>
</tr>
<tr>
<td>+ (85 per cent x 25 000 x ($2,000 + 50 per cent of $752))</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$185.5 million</strong></td>
</tr>
</tbody>
</table>

**HECS Offset – Zones A and B**
- (2 per cent x 253 000) x (25 per cent of 4.5 per cent x $35 000) | 2.0 |
- Special Areas | 0.8 |
| **Total** | **$188.3 million** |

|  |
|------------------------------|--|
| **Method B – Zone A** – 101 000 x (15 per cent of $6 880) | $104.2 |
| - Zone B - 152 000 x (3 per cent of $6 880) | 31.4 |
| Special Areas – 25 000 x (30 per cent of $6 880) | 51.6 |
| **Total** | **$187.2 million** |

**HECS Offset – as above** | 2.8 |
| **Total** | **$190.0 million** |

<table>
<thead>
<tr>
<th>Zoning System Alternative 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Method A – Remote Zone</strong> – (15 per cent x 101 000 x $1 000)</td>
<td>$133.3</td>
</tr>
<tr>
<td>+ (85 per cent x 101 000 x ($1 000 + 50 per cent of $752))</td>
<td></td>
</tr>
<tr>
<td><strong>Special Areas</strong> – (15 per cent x 25 000 x $2 000)</td>
<td>58.0</td>
</tr>
<tr>
<td>+ (85 per cent x 25 000 x ($2 000 + 50 per cent of $752))</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>191.3 million</strong></td>
</tr>
</tbody>
</table>

**HECS offset – Remote Zone**
- (2 per cent x 101 000) x (25 per cent x 4.5 per cent x $35 000) | 0.8 |
- Special Areas | 0.8 |
| **Total** | **1.6** |

**Total Cost** | **$192.9 million** |

|  |
|----------------------------|--|
| **Method B – Remote Zone** – 101 000 x (20 per cent of $6 880) | 139.0 |
| Special Areas – 25 000 x (30 per cent of $6 880) | 51.6 |
| **HECS Offset – as above** | 1.6 |
| **Total** | **$192.2 million** |
Current System – as calculated in Appendix 1

<table>
<thead>
<tr>
<th>Zone</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zone A</td>
<td>$94.1</td>
</tr>
<tr>
<td>Zone B</td>
<td>$58.6</td>
</tr>
<tr>
<td>Special Areas</td>
<td>$37.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$190.0 million</strong></td>
</tr>
</tbody>
</table>

The above percentage of taxpayers who live in remote areas and who have incurred an accumulated HECS debt is simply a broad estimate (see below). It is probable that this debt would be incurred by a greater percentage of high income young and middle aged professionals, and a much less percentage of low and middle income taxpayers.

APPENDIX 3

Higher Education Contribution Scheme (HECS) Debtors in Remote Areas 1999-2000

The ATO publishes details of the number of taxpayers from regional and rural areas of Australia who are carrying a HECS debt. In the same manner as in Appendix 1 a broad estimate of the number of these taxpayers resident in Zone B is calculated.

<table>
<thead>
<tr>
<th>HECS Taxpayers in Regional and Rural Areas (ATO statistics)</th>
<th>Estimated No. of HECS Taxpayers in Zone B and its Special Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW Rural 9 279</td>
<td>10 per cent 928</td>
</tr>
<tr>
<td>Qld Rural 8 020</td>
<td>20 per cent 1 604</td>
</tr>
<tr>
<td>Qld Regional 6 738</td>
<td>40 per cent 2 695</td>
</tr>
<tr>
<td>SA Rural 2 486</td>
<td>20 per cent 497</td>
</tr>
<tr>
<td>WA Rural 3044</td>
<td>20 per cent 609</td>
</tr>
</tbody>
</table>

Estimated number of HECS taxpayers in Zone B and its Special Areas 6 333

Estimated total number of taxpayers in Zone B and its Special Areas 334 000

Percentage of HECS taxpayers to total taxpayers in Zone B and S.A. = 1.9 per cent. Adopt 2 per cent as a reasonable percentage for all designated remote areas (3.13 per cent of all individual taxpayers have a HECS assessment debt (ATO Statistics)).
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 per cent 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 per cent for Zone B and 50 per cent 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 km 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-conditioned 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 per cent of Australia’s land mass contains 84 per cent of our population and that approximately half of our continent contains only 0.3 per cent 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 per cent 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 per cent to 50 per cent 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 s 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-s 79A(3) be deleted accordingly.

**REVIEW OF REBATES**

- To amend sub-s 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 sub-s 79A(4)(a) 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 per cent of the year’s repayment contribution for permanent residents of Zones A and B for the Remote Zone, and 100 per cent 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 and 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 [thus] 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 per cent of their liability reduced for that year of residence in an Ordinary Remote Zone and 100 per cent 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 (s 79A of the Income Tax Assessment Act 1936).
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