



MINERALS COUNCIL OF AUSTRALIA
SUBMISSION TO THE PRODUCTIVITY COMMISSION'S
REVIEW OF REMOTE AREA TAX CONCESSIONS
AND PAYMENTS

7 MAY 2019

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EXECUTIVE SUMMARY

Individuals have different needs and requirements when it comes to their working arrangements in remote areas. For companies operating in remote areas it is therefore necessary to provide the workforce with a range of working arrangements and flexibility in those arrangements in order to access staff with the skills and experience needed for their respective operations.

Similarly, there has to be a range of deployment alternatives including fly-in fly-out (FIFO), bus-in bus-out and drive-in drive-out (DIDO) with suitable accommodation arrangements and locally sourced labour. Decisions as to which are offered are based on locational issues and a range of variables such as the proximity of suitably qualified workers, transport options, shift requirements and the job vacancies and their expected duration.

In a competitive labour market, mining companies must be flexible and offer a variety of workforce arrangements if they are to be successful in attracting and retaining employees. Labour mobility is also critical to ensuring a diverse workforce.

Tax is a consideration, but is not the driving factor influencing a mining company's decision to source workers on FIFO or DIDO or local hire/remote accommodation. The purpose of the Fringe Benefits Tax (FBT) FBT legislation is to ensure equitable tax treatment of salary and wage income with non-cash benefits provided to employees in respect of their employment services. FBT rules recognise that housing and transportation costs are a necessary business expense in order to operate an efficient, modern mining business. The costs are incurred by mining companies in order to employ a suitable workforce in remote areas. The costs are not employee benefits in the sense of that term applying to non-salary forms of remuneration.

The FBT legislation was designed to capture all non-cash benefits by employers to employees (i.e. computers, tools of the trade, mobile phones, cars, car parking, low interest loans etc.). The legislation then excludes items that should not be subject to the tax in the first place. These items of expenditure are necessary for the employee to complete their job (i.e. computers, tools of the trade and mobile phones). In order to achieve that equitable outcome, the legislation exempts from taxation a number of precisely defined arrangements such as remote housing and transportation expenses. Remote area housing and transportation costs that are exempted from FBT are not concessions; they are necessary business costs. Correctly, the provisions for remote area FBT exemptions also apply to local workforces renting or purchasing a home – it is not restricted to FIFO workers.

There are, however, some legitimate costs which are not exempt, which means the system is not equitable and does not operate efficiently. The current FBT residential housing rules encourage employer-owned or employer-leased accommodation over employee-sourced rental accommodation where the rent is reimbursed by the employer. The current FBT housing exemption for remote communities should be extended to all rental accommodation for residential employees regardless of whether the employer leases the accommodation and provides it to the employee or the employee leases it and is reimbursed by the employer. The current FBT remote area rules are complex and create significant compliance costs on employees and employers. Aligning the treatment of types of rental accommodation will remove this complexity and cost.

In addition, it is important that the taxation system does not penalise mining companies that offer specific employment opportunities to people in regional communities who might otherwise not work in mining.

The current 'remote area' definition for FIFO transportation and housing should remain. The definition has been in place since the inception of FBT, is well understood and, most importantly, reflects the fact that the costs are incurred in operating a remote area mining business. They are not a form of remuneration benefit that should be caught by FBT.

In this review of remote area tax and concessions and payments the MCA urges that the Productivity Commission recommend:

- No change to the pre-existing definition of remote areas, due to the adverse material cost that would be incurred by employers should they no longer be eligible to access the remote area benefits exemptions or concessions
- Widening FBT exemptions to include subsidies to employees by way of contribution to mortgage and long term rental arrangements, thus helping to remove any disincentives for employees to make a permanent regional move
- No changes to the tax treatment of FIFO and DIDO that add to the already significant cost of doing business and deny workers the choice to fly-in fly-out or drive-in drive-out of their place of employment.

1. CONTRIBUTION OF AUSTRALIA'S MINING AND RELATED SECTORS

- Mining is Australia's largest export industry, employing 217,600 people and paying the highest average earnings. According to Deloitte Access Economics, the combined mining and mining equipment, technology and services (METS) sector supports a total of 1.1 million workers, or approximately 10 per cent of jobs in Australia
- The Productivity Commission concluded in its report on transitioning regional economies that mining regions generally have higher average personal income than non-mining regions and will continue to benefit regions for decades to come
- The minerals industry recognises its responsibility to contribute to the broader socio-economic development of the communities and regions in which it operates. Industry approaches increasingly prioritise long-term partnerships with local governments, community organisations and other stakeholder groups to deliver regional social, economic and environmental priorities.

Australia's minerals industry is significant driver of Australia's economy

Australia is a leading global producer of iron ore, gold, bauxite, zinc and thermal and metallurgical coal and a significant producer of other metals such as rutile, copper and antimony.¹

Australia's resources exports reached a record high of \$220 billion in 2017-18, equal to 55 per cent of Australia's total exports. Iron ore and coal remain Australia's two most valuable exports, contributing \$61 billion and \$60 billion respectively in 2017-18 – the latter being a new record high for coal. In the same year, gold – Australia's fourth largest export industry – generated \$20 billion in revenue – the first time that gold exports have exceeded \$20 billion. Base metals and other minerals contributed a further \$38 billion in export earnings.²

The resources sector employs 217,600 people in highly skilled, highly paid jobs – predominantly in remote and regional Australia. The jobs created in the resources sector are also highly paid with average weekly earnings of \$2,672 – the highest of any industry in Australia and 60 per cent higher than the national average.³

The mining industry supports a large supply chain of professional services providers, construction companies, logistics systems and equipment manufacturers often known as the METS sector. According to Deloitte Access Economics, the economic output of the mining and METS sector (excluding oil and gas) is worth around \$236 billion a year – or 15 per cent of the Australian economy.⁴

Deloitte also estimated that the mining and mining and METS sector together support 1.1 million workers (484,100 employed directly, 655,700 indirectly) or approximately 10 per cent of jobs in Australia.⁵

Australia's resources workforce covers a range of scientific fields and professional occupations. The composition of the Australia's resources workforce includes:

- More geologists, geophysicists, metallurgists and physicists than any other industry
- The third largest number of chemical, material, industrial and mechanical engineers and environmental scientists.⁶

¹ Deloitte Access Economics, [Mining and METS: engines of economic growth and prosperity for Australians](#), viewed 30 April 2019, p. 5.

² Australian Bureau of Statistics, [International trade in goods and services, Australia, Jun 2018](#), ABS cat. no. 5368.0 released 2 August 2018.

³ Australian Bureau of Statistics, [Average Weekly Earnings, Australia, Nov 2017](#), ABS cat. no. 6302.0, released on 22 February 2018.

⁴ Deloitte Access Economics, [Mining and METS: engines of economic growth and prosperity for Australians](#), 1 May 2019.

⁵ *ibid*, p. ii.

Apprenticeships and traineeships continue to be an important pathway into the minerals industry and a stable source of talent to meet current and future needs; evidenced by the ongoing consistency in year-on-year numbers of apprentices and trainees. Currently, apprentices and trainees make up 4 per cent of the resources workforce compared to the national industry average of 2.1 per cent.⁷

Economic benefits of the minerals industry are shared across governments, businesses and households across Australia. These economic benefits – local business engagement and job creation – are particularly significant and important in mining communities across regional and remote Australia.

A regional industry

The majority of operating mines in Australia are in regional Queensland, Western Australia and New South Wales with growing industries in South Australia, Tasmania, Victoria and the Northern Territory. Furthermore, while there is a strong mining and METS sector presence in capital cities, most activity occurs within close proximity of operating mines.⁸

Studies confirm the significance of the minerals industry to State and Northern Territory economies:

- In Queensland, 2016-17 data indicates the resources sector contributed \$55.1 billion to the state's economy. This included \$16.4 billion in purchases from more than 16,400 Queensland businesses and support for 910 community organisations. The industry paid \$5.1 billion in wages to 38,150 direct employees⁹
- In Western Australia, data indicates 46 minerals and energy companies supported 886 community groups and 6,924 Western Australian businesses in 2015-16. This was part of \$32 billion contribution to the Western Australian economy through wages and salaries, business purchases, community contributions and payments to governments¹⁰
- In New South Wales, 2016-17 data indicates 26 mining companies directly spent \$10.4 billion on supplier businesses, employees and contractors, community contributions and local and state government payments. This expenditure supported approximately 6,681 local businesses in NSW¹¹
- Deloitte Access Economics estimated the total economic contribution to Victoria from the mining and METS sector was \$13.6 billion, supporting 121,700 full time jobs. In addition to Melbourne-based mining services, a significant driver of this contribution were mining operations in the Latrobe Valley and Central Victoria and METS hubs in Geelong, Ballarat and Bendigo.

Mining regions

The regional footprint of Australia's minerals industry is often considered in terms of major mining regions, which include central and north-western Queensland, the Hunter Valley and central west in New South Wales and the Goldfields and Pilbara in Western Australia.

⁶ Department of Employment, [Job Outlook](#); MCA calculations viewed 1 May 2019. NB these figures are estimates of the total number of workers directly and indirectly employed by the resources sector.

⁷ National Centre for Vocational Education Research (NVCE), [Apprentice and trainees 2018 – September quarter](#), released March 2019; and National Centre for Vocational Education Research (NVCE), [Apprentices and trainees 2018: September quarter – Australia, Statistical Report](#) viewed 6 May 2019.

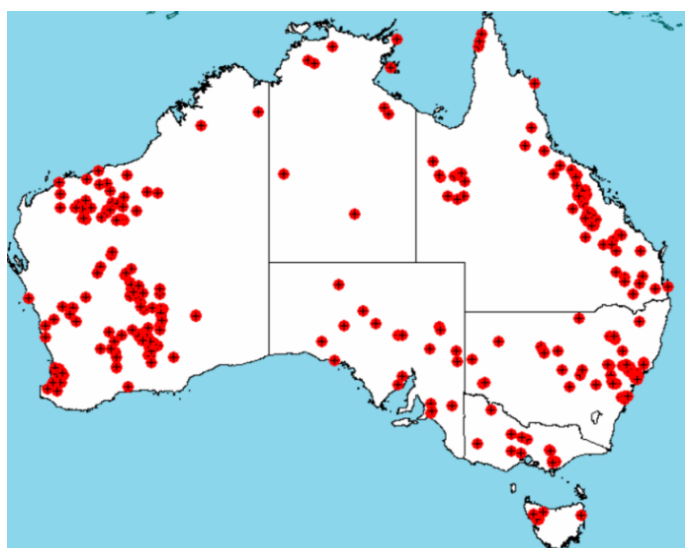
⁸ Deloitte Access Economics, [Mining and METS: engines of economic growth and prosperity for Australians](#), 1 May 2019, p. 6.

⁹ Queensland Resources Council, [What are resources worth to Queensland?](#), viewed 10 January 2018.

¹⁰ Chamber of Minerals and Energy Western Australia, [2015-2016 Western Australian Resource Sector Operations](#), CMEWA, viewed 30 April 2019.

¹¹ Lawrence Consulting, [NSW Mining Industry Expenditure Impact Survey 2016/17](#), report prepared for NSW Mining.

Figure 1 – Operating mines across Australia



Source: Geoscience Australia, [Australian mines atlas](#), Australian Government, Canberra, viewed 2 May 2019.

Economic research by Deloitte Access Economics in 2017 quantified the economic direct and indirect contribution of the mining and METS sector in three significant mining regions: the Bowen-Surat Basin in Queensland, the Hunter Valley in New South Wales and the Pilbara in Western Australia.

Commissioned by the MCA, the research concluded the mining and METS sector:

- Directly and indirectly contributed \$18.6 billion in value added in the Bowen-Surat region, representing 63 per cent of the region's economic activity. This in turn supported 99,752 full-time jobs.¹²
- Directly and indirectly contributed \$15.2 billion in value added to the Hunter region in 2015-16, representing 34 per cent of economic activity in the region. This in turn supported 93,554 full-time jobs.¹³
- Directly and indirectly contributed of \$37.8 billion in value added to the Pilbara region in 2015-16, representing 88 per cent of economic activity. This supported 47,100 indirect and 46,697 full-time jobs. The high proportion of these roles that are fly-in, fly-out jobs has assisted to share the benefits of minerals development to other regions in Western Australia.¹⁴

Ongoing benefits from the investment phase of the mining boom

The minerals industry recognises transitional pressures have occurred in some regions as a result of the transition from the recent mining investment phase to the mining production phase.

In some regions, this transition has occurred at the same time as economic changes such as the completion of major infrastructure development and integration of new technologies in agricultural practices and processes.

In its study report on *Transitioning Regional Economies*, the Productivity Commission concluded that the mining boom – despite some transitional pressures – has made regions in Australia 'substantially better off in the short term and over the long term'.¹⁵ The commission found that Australia's 'regions have enjoyed overall employment growth and improved social connections', particularly through improved technology. In particular, most regions in Australia (77 per cent) had experienced positive growth in employment over the past five years – and continue to grow strongly.¹⁶

¹² Deloitte Access Economics, [Mining and METS: engines of economic growth and prosperity for Australians](#), 29 March 2017.

¹³ Ibid, p. 17.

¹⁴ Ibid, p. 17.

¹⁵ Productivity Commission, [Transitioning Regional Economies: Study Report](#), 15 December 2017, p. 2.

¹⁶ Ibid, p. 2.

The Productivity Commission further observed that:

- Mining regions have generally had the highest rates of employment growth and mining employment is more than double what it was prior to the mining investment boom
- Incomes in mining regions grew rapidly during the investment phase of the mining boom and average personal income remains higher in mining regions than in non-mining areas
- The expansion of Australia's mining industry has led to higher average incomes, larger profits and increased revenues for federal and state governments.¹⁷

¹⁷ Productivity Commission, [Transitioning Regional Economics: Study Report](#), 15 December 2017, pp. 79, 82, 85, 88, 94, 138.

2. IMPORTANCE OF LABOUR MOBILITY

The Productivity Commission Issues Paper (July 2013) states:

Geographic labour mobility is one element of a flexible labour market. It is an important mechanism for adjusting to labour demand shocks (such as factory closures), seasonal variations in labour supply, and to broader structural changes in the economy. By enabling labour to move to its best use across different regions of Australia (including outer metropolitan and non-metropolitan locations), it can alleviate labour shortages and regional disparities in labour market conditions, such as high levels of unemployment, and increase skills utilisation, earnings and community wellbeing.¹⁸

At a basic theoretical level, shifts in regional labour supply or labour demand will lead to changes in wages and employment, which will affect an individual's incentives to work in a given region versus another.

The submission observes, however that:

It is not just economic incentives that determine regional labour supply. In deciding where to live and work, people weigh up a complex range of costs and benefits. These costs and benefits are affected by a person's individual characteristics and circumstances (such as age and family considerations), a range of environmental, economic and social factors, and the actions of businesses and governments.¹⁹

Mining projects have life cycles that vary greatly depending on the project and have different labour demands throughout. Often there might only be work for a small number of years. These mines are often in remote and regional parts of Australia making it difficult to source the highly skilled labour required. The MCA and its members strongly reject the claim that the transport and accommodation provided to employees travelling to remote areas are a benefit and should be subject to FBT. It is unreasonable for a company to expect an employee to relocate themselves and often an entire family for a project which may only last a few years.

Geographic labour mobility is changing with advances in transport and communication technologies, and demographic and structural changes are also influencing where, how and when we work.²⁰

The Reserve Bank observes that:

Movement of existing workers between different jobs has been an important mechanism facilitating changes in the industry and geographic structure of employment over the past decade... that facilitates adjustment to labour shocks and structural change.²¹

Arguably, if the industry was not able to embrace labour mobility in the form of staff relocation, FIFO and DIDO it would not have been able to apply adequate labour resources to its production needs, and would be a much less successful industry than it otherwise has been, with broader impacts on the wider Australian economy.

Skilled labour needs cannot always be met by local workforces, particularly in remote Australia. Indeed, demand for labour in remote area mine operations is disproportionately high compared to the available workforce.

The last data commissioned by the MCA to ascertain the percentage of the mining community that was FIFO/DIDO was in 2012, and found that only 25 per cent of the mining labour force was mobile.²² Whilst this figure is not insignificant, it does establish that the majority of the mining workforce is local. However, more recent data commissioned by the MCA by CoverCard, indicates that 18 per cent of job advertisements in the three years ended February 2019 referred to FIFO.²³ Therefore, the MCA estimates the current FIFO figure to be around 20 per cent.

¹⁸ Productivity Commission, [Geographic Labour Mobility Issues Paper](#), July 2013.

¹⁹ *ibid.*

²⁰ *ibid.*

²¹ P D'Arcy, L Gustafsson, C Lewis and T Wiltshire, [Labour Market Turnover and Mobility](#), Reserve Bank of Australia, Bulletin – December Quarter 2012, p. 1.

²² KPMG, Analysis of the Long Distance Commuter Workforce Across Australia, report commissioned by the MCA, March 2013.

²³ CoverCard, [Mining Job Advertisement Analysis Pilot – Model Outputs and Summary Analysis](#), commissioned by the MCA, April 9 2019.

The current share of FIFO workers in mining (estimated at 20 per cent) is due to a number of factors. These include, the challenge of filling the specialist and diverse skills requirements of the mining workforce in smaller population centres; availability and cost of accommodation either available in the local community or provided by companies; and the desire of many mine personnel and their families to live in their home communities, usually with far greater amenities.

3. FUTURE WORKFORCE

Innovation is driving new specialist occupations such as data scientists and mechatronic engineers. Traditional jobs are increasingly being augmented with new technologies and the industry is responding by upskilling its workforce. The composition of the current and future minerals workforce will continue to evolve with the increasing need for skills in data analytics, robotics and artificial intelligence.²⁴

Recognising its commitment to the communities in which it operates, the minerals industry is actively working with education providers, governments and other stakeholders to improve access to education and training in these emerging areas. The aim is to support existing workers to upskill and enable future workers to acquire appropriate skills in innovation and digital technologies.

However, in order to respond to these challenges it is vital that the industry is able to source skilled workers from the pool available, regardless of location and without the imposition of an added tax cost. Specialist skills will be required to unlock the value of new mines. These specialist skills will be required to improve mine productivity, protect the environment, enhance worker safety and generate value for the wider community.

This will bring benefits to remote areas complemented by workforce planning that utilises FIFO and DIDO arrangements to maximise the outcomes for all. It is imperative that these strategies are not burdened with a fringe benefits tax where it is evident that such a tax should have no application.

²⁴ Minerals Council of Australia, [Careers page](#), MCA, viewed 6 May 2019.

4. RECRUITMENT PRACTICES

The skilled workers required for FIFO/DIDO mine sites vary depending upon the location. For remote locations the workers required include all occupations at the site from semi-skilled operators and miners to the general manager. For operations near a town or regional centre companies will seek to source their workforce locally or accommodate its workforce in company housing. However, the competitive labour market means that new operations need to look to FIFO/DIDO for specialist occupations not available locally, especially in remote areas. Operations not near a town or regional centre are typically run by a FIFO workforce, and accommodation is a mixture of semi-permanent/permanent (for example, dongas/purpose built accommodation).

FIFO/DIDO workers are largely experienced in their chosen occupation. These can include experienced miners, truck drivers, plant operators, trades people (mostly mechanical and electrical trades), technicians, technical staff, clerical staff, supervisors, engineers, geologists, metallurgists, environmental scientists, accountants, human resources professionals and managers.

Entry level semi-skilled workers are often sourced from the unemployed/under-employed job seekers locally. Mining companies conduct extensive pre-employment training to equip workers for an entry level job in the minerals industry, including local Indigenous workers.

Companies have established priorities for the origin of their FIFO/DIDO workers. In Western Australia the preferred locations are Perth and identified regional centres with established flight connections. In Queensland the preferred origin for FIFO/DIDO workers are Brisbane, Southern Queensland more generally and the larger coastal regional towns of North Queensland and Far North Queensland. The preference of origin location for DIDO workers is far less prescriptive, but within manageable driving distance. Occasionally companies will source specialists from interstate or even internationally.

The industry is already proactive in seeking skilled personnel and addressing unemployment in regions with high numbers of job seekers. An example of the practice is Rio Tinto's Regional FIFO program.

Box 1: Regional FIFO programs

Rio Tinto commenced regional FIFO in Western Australia in 2006, with the first commute from Geraldton of 26 employees to a Pilbara mining operation. Over the last 13 years, regional FIFO has expanded from eight regional centres, including Busselton, Broome, Carnarvon, Exmouth, Derby, Fitzroy Crossing, Meekatharra and Albany, to the Pilbara.

Today there are over 2,300 employees (12 per cent of the regional FIFO workforce is Indigenous and 11 per cent female) commuting directly from regional Western Australia to eight Pilbara operational sites, with regional offices located in Busselton, Geraldton and Broome, supporting the business to maintain a skilled workforce and delivering a significant economic impact to the source communities.

The Regional FIFO program offers employees a lifestyle choice, allowing them to remain in their home communities and still have a career in mining. 33 per cent of the iron ore FIFO workforce resides in regional Western Australia.

Regional FIFO has been embraced by source communities, offering opportunities for communities that may otherwise have limited local employment options and helping to spread the benefits of mining throughout rural and remote Western Australia. Regional FIFO contributes to a vibrant regional Western Australia sharing the employment and economic benefits of Rio Tinto's operations across the State.

Rio Tinto spending in regional WA provides significant social benefits and economic opportunities by:

- Creation of local jobs and local business spend
- Supporting community groups and events
- Helping to make regional communities sustainable
- Diversifying regional employment choices
- Creating Indigenous employment opportunities.

5. RESEARCH INTO COMMUNITY IMPACT OF FIFO PROGRAMS

Rio Tinto has undertaken research into the impact of FIFO arrangements on communities and participants in Western Australia. The following two case studies demonstrate the significant positive impact that well managed and effective FIFO arrangements can produce. It is very important that these arrangements are not put at risk by an additional tax burden.

Box 2: Pilbara towns in their own voices

Since September 2017, CSIRO*, in partnership with Rio Tinto, has been collecting monthly perception-based survey data from six communities in the Pilbara (Karratha, Dampier, Wickham, Tom Price, Pannawonica, Paraburadoo). The 'Local Voices' program, to date has engaged 715 individuals, who have completed 2,633 separate surveys on issues relevant to their lives in the Pilbara.

As with many regional and remote Australian communities, those included in the Local Voices program consistently indicate there are strong bonds within community (i.e. social capital), volunteering behaviours are high (75 per cent of survey respondents in March 2019 indicated they currently volunteer in their community in some capacity, 60 per cent on at least a weekly basis), and that these communities are excellent places to raise a young family in a supportive community environment.

The data collected to date also demonstrates that living remotely can present significant challenges such as access to health services, education facilities beyond primary school, housing affordability and cost of living expenses (including availability of household goods and food products), service provision (e.g. child care, aged care, disability services), and the inherent transience of community membership.

Community members also consistently report that while their communities are suitable for families with young children, suitability ratings drop markedly for those with teenage children, for seniors, and particularly for people with disabilities. Health services, especially access to health specialists and allied health, are rated poorly for all communities surveyed, and most of all for those inland communities such as Pannawonica, Paraburadoo, and Tom Price.

These experiences flow directly into the choices that Pilbara residents make about their current and future lifestyle such as when they will need to move to a metropolitan centre for educational reasons; how they may access specialist, allied and even primary health services; where to source household staples like bread affordably; or even whether or not to split families across two locations to access Pilbara employment opportunities.

**Commonwealth Scientific and Industrial Research Organisation (CSIRO)*

Box 3: Albany FIFO social and economic impact study

The Albany FIFO Socio Economic Impact research was commissioned by Rio Tinto through the University of Western Australia's Centre for Regional Development, led by Dr Fiona Haslam McKenzie, to provide a grounded-evidence base to support Rio Tinto achieve positive engagement outcomes with Albany and surrounding communities in the Great Southern region of Western Australia.

The purpose of the study was to understand, from an employee perspective, the levels of support for a FIFO lifestyle and whether the Rio Tinto FIFO arrangements are valued both in the workplace and in the community. The study also assessed from an external perspective, what the impact of FIFO is on community services.

Between September and November 2017 a mixed method approach was applied to collect, collate and analyse data. This included desktop research and analysis of existing publicly available data sets. In-depth interviews were subsequently conducted with key local stakeholders including representatives from the City of Albany, Great Southern Development Commission, not-for-profit community organisations, service providers, industry organisations and South Aboriginal Corporation. Employees of Rio Tinto who FIFO from Albany, family members and their spouse, were interviewed face-to-face or spoken with via telephone.

- 20 per cent of the Great Southern FIFO workforce identify as Indigenous
- 70 per cent reside in Albany, where other employees reside in location such as Mt Barker, Denmark and other areas within the Great Southern region
- Employees value the direct commute between Albany and the Pilbara, contributing towards increased job prospects and skill development
- Study participants acknowledge Rio Tinto's economic contribution to the broader community and Great Southern region
- Employees identified benefit of employment with Rio Tinto such as:
 - Respect gained across the community
 - The ability to earn a good, regular salary while staying in the region they love
 - Provision of family friendly rosters and a range of employee benefits are welcomed
 - Appreciation for not having to drive long distances to work / catch a direct FIFO plane
 - Low turnover rate with a large proportion of employees having working for Rio Tinto since the program commenced
 - Benefit of working for a safety conscious company.

Study participants consistently conveyed a message of opportunity, gratitude and commitment regarding the opportunity to live in the Great Southern region while working in a stable, well-paid job in the Pilbara. Similarly, key external stakeholders recognise the importance and difference the Rio Tinto regional workforce strategy had made to the Great Southern, and Albany in particular, economy recognising the importance of local expenditure and contribution made by Rio Tinto families and the company to local investment and expenditure.

Rio Tinto's regional FIFO program contributes to a vibrant regional Western Australia, sharing the employment and economic benefits of Rio Tinto's Pilbara operations across the State.

It is important that these company practices that benefit regional communities are not placed at risk by the introduction of an additional FBT burden.

6. IMPOST OF TAXATION

There are several factors that influence employers' decisions whether to source workers as locally or on a FIFO/DIDO arrangement. These include the location, accessibility and nature of asset(s) being mined, the mining lifecycle (stages may include exploration and evaluation, development and innovation, mining and processing), availability of housing and local infrastructure, community and towns' strategies, as well as skills availability. Tax is a consideration, but it is not a driving factor.

There are a number of costs incurred by employers who operate in remote areas that include (but are not limited to):

Activity	Examples of how this may be provided
Employer-owned accommodation	Rental subsidy – for residential employees Fully subsidised accommodation – for FIFO employees
Employer-leased ('Master leasing') accommodation	Employer hold lease directly with real estate agents – rental subsidy for residential employees Fully subsidised accommodation – for FIFO employees
Employee-sourced rental accommodation	Employee holds lease directly with real estate agent – rental subsidy for residential employees
Purchase cost reimbursement	Reimbursement of certain purchase costs on acquisition of residential property located in remote area
Interest cost reimbursement	Reimbursement of interest costs on qualifying mortgage for residential property located in remote area
Remote area power/electricity	Subsidised power up to a capped amount, with any excess paid by employees at commercial rates
Remote area water subsidy	Annual capped amount reimbursed to employee
Remote area holiday transport	Reimbursement of flight costs for employee and their family (where relevant) for a holiday of 3 or more business days
Home improvement reimbursement	Amount reimbursed to employees where renovations/improvements are made to company owned housing
FIFO flights between regional centres and capital cities	Employer funds the cost of flights from regional centres to Perth airport, and then employee reimburses employer via a salary sacrifice arrangement
FIFO flights from capital city to site (and return)	Employer funds the cost of the flights
Airport car-parking for FIFO employees	Reimbursement for costs of parking at airport when flying out to a FIFO site
Taxi travel from home to airport	Employer reimburses the cost of taxis to/from airport
Bus travel from airport to remote area accommodation	Employer funds the costs of bus travel between remote area and employee accommodation

General FBT policy design considerations

The current FBT arrangements for FIFO workers recognise that housing and transportation costs are a necessary business expense to ensure labour can be deployed in remote areas. The purpose of the FBT system is to improve the integrity and fairness of the tax system by ensuring non-cash benefits provided to employees in the course of their employment are appropriately taxed.

Fundamentally, the design premise of FBT was to circumvent behaviours where employees redirected their remuneration into (previously non-taxable) non-cash benefits for private use. The MCA reiterates that FBT exemptions for FIFO workers recognise that essential transport and housing provided to workers in remote areas are not private in nature, and are therefore not taxed under the FBT system.

Given the remote location of many mine sites in Australia, it is common for mining companies to provide subsidised accommodation to employees as an incentive to work in remote areas and subsidise the high costs of accommodation associated with some remote areas. The FBT exemptions for remote housing (section 58ZC of the *Fringe Benefits Tax Assessment Act 1986*) and FIFO accommodation (section 47(5)) and transport (section 47(7)) are utilised by mining companies. The 50 per cent FBT reduction for housing assistance provided to employees residing in remote areas is also utilised (section 60). However, use of the 50 per cent concession is limited, and it is restrictive and administratively complex to apply.

The current FBT rules are skewed towards rental accommodation. There is little incentive in the current rules for employees to purchase a home in the local community. The tax treatment can be summarised as follows between FIFO and residential workforces:

- FIFO workforce - employer provided accommodation and transport is exempt from FBT
- Residential workforce – employer provided accommodation is exempt from FBT
- Residential workforce – employer subsidised accommodation is concessionally taxed with varying tax outcomes depending on the type of accommodation provided.

These distortions could be overcome by extending FBT exempt treatment of employer provided accommodation to partially exempt accommodation subsidies or by streamlining the 50 per cent FBT concession rules for residential workforces. Under an aligned system of FBT exemptions for remote area housing, employers would be able to provide a housing subsidy to all employees residing in remote areas with the same tax outcome irrespective of whether the employee rents or purchases a home.

Further, a fundamental design principle of the FBT rules is the use of a concept where the taxable value of benefits should be reduced to the extent to which any expenditure incurred (in the case of a reimbursement) or that would be otherwise incurred by an employee in obtaining a benefit would have been deductible for income tax purposes. This concept is referred to as the “otherwise deductible rule”. In many cases, the otherwise deductible rule may also operate (as intended) to reduce the taxable value of certain remote area benefits to nil.

Company provided accommodation - remote area exemption – FIFO and residential workers

The remote area housing exemptions are commonly used by the mining industry to provide accommodation to FIFO, DIDO and some residential workers. The FBT law provides an exemption and sets out conditions to target the exemption to housing in remote areas where there is limited accommodation available. These conditions are simple to administer. In determining a ‘remote area’, the existing remote area classifications have been in place for some time, are well understood and are reflective of the fact that these costs are a cost of doing business.

Company subsidised accommodation – remote area 50 per cent concession – residential workers

In contrast to housing provided by an employer, other forms of housing assistance provided to an employee in remote areas are not eligible for a full FBT exemption. Rather, the value of assistance

provided to an employee for interest expenses for a housing loan, expenses incurred to purchase a property, or rental costs is reduced by 50 per cent.

Providing such assistance has proven to be restrictive and distorts assistance toward rental rather than the purchase of accommodation. Given the compliance costs involved, the different tax outcomes generated by the classification of assistance provided, and restrictions around such assistance, means that mining companies are less likely to provide rental assistance or costs associated with a housing loan to employees in remote areas.

In the case of rental subsidies, the 50 per cent concession involves minimal administrative costs. The concession provides a reasonable tax outcome to the employer with the taxable value of the assistance calculated as the employer provided subsidy less 50 per cent of the employee's rental expenditure. The straightforward eligibility criteria (assistance is provided to an employee, under an arm's length arrangement, for their usual place of residence) reduces administrative costs for both the employer and employee.

By contrast, providing a subsidy for interest expenses on a mortgage incurred by an employee has a number of restrictions. The 50 per cent concession applies to a narrow range of loans - only residential loans for the purchase of a home or an extension are eligible. Loans to redecorate, landscape, install a pool etc. are not eligible and interest concessions cannot be apportioned. This means that once provided, an employee cannot utilise any built up equity to redraw on the loan to undertake any work on their home (other than extensions). If an employee refinanced to pay for improvements, the loan would be deemed non-qualifying, and the interest subsidy would no longer be eligible for the FBT concession.

Administration of this particular benefit requires detailed and ongoing compliance checks. Purchase documentation, loan offer documentation, and utilities bills to prove eligibility are required. Each month on claiming the benefit the employee also needs to provide copies of bank statements to prove there have been no withdrawals on the loan account.

The 50 per cent concession for the cost of purchasing housing involves low compliance costs (proof of expenditure and remote area is all that is required), however, the benefit is limited because the 50 per cent concession does not apply to financing or mortgage servicing costs. Only upfront costs such as deposit, stamp duty, legal fees etc. are eligible.

To illustrate the differing tax outcomes, assuming a \$50,000 subsidy is provided to an employee under each of the three above scenarios to assist with an annual cost of \$60,000 – for rent, for home loan interest expenses, and for home purchase costs. Tax payable would be \$17,736 if the employee rented and \$22,170 for interest expenses and also for purchase costs. Tax payable would rise to \$44,340 where a loan became non-complying due to the employee redrawing on the loan for home improvements.

This distortion towards rental can impact on labour retention, increase the demand for rental properties, thereby increasing the rents in the respective area and can be unfair to employees who choose to purchase a home in a remote area.

Goods and Services Tax (GST) distortions

The ATO's view of the GST treatment of employer provided accommodation also involves a distortion against construction of homes and apartments for employees.

A number of mining companies construct and provide accommodation premises for employees in remote areas. The GST treatment differs depending on whether the accommodation provided to employees is 'residential' (a house or apartment) or 'commercial residential' (multiple occupancy quarters such as mining camps or motel like accommodation).

The ATO recognises FIFO accommodation can have the characteristics of 'commercial residential premises' and is taxable, therefore eligible for input tax credits for the costs of constructing and running such premises. However, the ATO considers supplies of 'residential premises' are not eligible for input tax credits.

These rules mean that where more permanent forms of housing are provided to employees, such as standalone homes or apartments, no input tax credits are available to a company providing this form of accommodation, thus increasing the cost of this form of accommodation and adding to the economic bias toward the provision of FIFO accommodation.

Probable impact that FBT changes will have on company operations

Remote area exemptions are critical to the viability of MCA member operations in remote areas. One large MCA member has advised that removal of the current exemptions would result in an FBT liability in excess of \$25 million per annum. Furthermore, they have disclosed that almost all employees in the remote areas they operate rely on certain FBT exemptions.

It is important to note that companies have made investment decisions based on the belief that tax settings would remain stable.

The companies are conscious that attracting a workforce to remote areas requires significant investment in infrastructure and local amenities. The expenditure incurred by mining companies in facilitating the FIFO workforce arrangements directly benefits local communities including, indigenous communities (for example construction of the Moranbah airport by BHP Billiton Mitsubishi Alliance, known as BMA).

Should the current exemptions and/or concessions be removed, this will add significant additional cost to employers currently operating in remote areas, particularly those that operate using a FIFO workforce where the costs of flights alone are extremely high. The additional cost may have several negative consequences including reduction of the workforce or reduced rosters, reduction of output, loss of revenue, reduced corporate taxes collected by the ATO, reduced royalties for Government, project(s) may become unviable and it becomes untenable to keep an operation running. Further, as detailed above, unintended consequences of any changes to the current FBT arrangements could result in companies being unable to continue to provide the support and amenities for the remote communities in which they operate.